

CITY OF LOS ANGELES



MANAGEMENT AUDIT

of the

THE LOS ANGELES CITY

HOUSING AUTHORITY

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by

Keith Comrie  
City Administrative Officer

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# CITY OF LOS ANGELES

CALIFORNIA

KEITH COMRIE  
CITY ADMINISTRATIVE OFFICER



TOM BRADLEY  
MAYOR

ROBERT E. CHASE  
JOHN R. COOMBS  
WILLIAM R. MCCARLEY  
JEROME R. SELMER  
THOMAS K. SHIELDS  
ASSISTANT  
CITY ADMINISTRATIVE OFFICERS

September 25, 1981

The Honorable Council of the  
City of Los Angeles

The Honorable Tom Bradley  
Mayor of the City of Los Angeles

The Board of Commissioners of the  
Housing Authority of the City of Los Angeles

Transmitted herewith is the Report on the Management Audit of the Housing Authority of the City of Los Angeles. The Audit was initiated at the direction of the City Council.

We recommend that the Mayor and Council request management of the Authority to submit a report within 90 days to the City Administrative Officer detailing progress achieved in implementing the recommendations of this Audit. We will then prepare an evaluation report, if warranted, for further review by the Mayor and Council.

The Management Audit of the Housing Authority of the City of Los Angeles was supervised under my direction by John R. Coombs, Assistant City Administrative Officer, and Al M. Beuerlein, Chief Administrative Analyst. Members of the Audit Team were Robert J. Arata, Luther H. Johnson, Richard A. Weilein, Lambertus H. Becker and Daniel J. O'Connor.

Very truly yours,

*K. Comrie*  
Keith Comrie

City Administrative Officer

KC:AMB:ph

cc: Executive Director Housing Authority of the  
City of Los Angeles

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## INTRODUCTION

The Housing Authority of the City of Los Angeles (HACLA) was established by City Council Resolution in 1938 pursuant to the U.S. Housing Act of 1937 and the California Authorities Law of 1938. All housing authorities under the law are agents of the State rather than municipalities. Because of its unique position within the City's structure, the Housing Authority has never before been audited by the City Administrative Officer. However, in August, 1980, the City Council requested the City Administrative Officer to conduct this Management Audit.

The Housing Authority was established specifically to provide safe, sanitary and decent residential housing for low income families and individuals. It does this through a variety of programs, including the low rent public housing (conventional housing) program, and the Section 8 and Section 23 Federally subsidized housing programs. Under the conventional low rent public housing program, the Authority owns and manages 8,253 units of family and elderly housing within 22 separate housing projects. The Authority also owns and manages 665 units in five projects for the elderly in the Section 8 New Construction Program. In addition, it has under contract some 2,653 leased units of family and elderly housing sponsored under the Section 23 leased housing program, approximately 13,305 units of Section 8 existing housing, 364 units Section 8 Moderate Rehabilitation, and 1,883 units for the elderly of Section 8 New Construction Private Owners/P.H.A. in 16 different projects.

In the performance of its responsibilities the Authority provides security patrols, maintenance services, tenant eligibility reviews and a variety of tenant services. In addition, the Authority conducts its own housing production efforts, administers the "Fifteen Percent Ordinance" and the Urban Homestead Program on behalf of the City, and implements a program of major modernization of its existing low rent public housing units. In completing its responsibilities, the Authority administers a \$70 million budget for 1981, with a staff of approximately 580.

The Audit of the Housing Authority is intended to be a review of its compliance with the pertinent laws and regulations governing the activities of Public Housing Authorities (PHA's). Included in the review are the Authority's powers and responsibilities under Sections 34200 through 34710 of the Health and Safety Code, the Government Code, the Cooperation Agreements between the Authority and the City, Annual Contribution Contract arrangements between the Authority and the Federal Government, the Authority By-laws and Manual of Policy and Procedures, and







the Federal Law and the handbooks promulgated by the U.S. Department of Housing and Urban Development (HUD).

The Audit is also intended to provide an independent assessment of the effectiveness with which the Authority has accomplished its objectives, and the efficiency with which resources are utilized to complete these tasks. Further, the Audit considered the findings outlined in the recent HUD audit of the Authority. Primary consideration was aimed at determining the degree to which the HUD audit findings had been implemented by the Authority, and/or the degree to which the findings remain pertinent to the Authority's operation.

The Authority is governed by a seven member Board appointed by the Mayor subject to the approval of the Council. The Board appoints an Executive Director who is charged with administering the Authority's business affairs subject to Board policies and instructions. The internal operations of the Authority are guided by the Authority By-laws and by the Manual of Policy and Procedure which are adopted and promulgated by the Board of Commissioners.

Every element of the Authority's organization structure was reviewed by the Audit Team. A unique problem arose in this Audit in that many of the Authority's departments were plagued by the absence of key staff members. In many cases, key vacancies had existed for a considerable period of time, and, in some instances, unit heads had been recently appointed to their positions and were not fully familiar with the operations. The absence of key staff personnel hampered the Audit process because it raised questions about the direction a particular unit might take under new leadership.

To assist the Audit Team in placing the performance of the Authority in perspective, contacts were made with other housing authorities, including those of Los Angeles County, the City of Long Beach and the City of San Diego. Major areas of emphasis included the housing production efforts, security practices and general management policies. In addition, the members of the HUD audit team who conducted the 1980 review of the Housing Authority's activities were contacted.

Consistent with the usual practice of this Office, Housing Authority management was provided the opportunity to review a draft copy of this report and to submit comments regarding errors of fact for consideration in finalizing the report. Accordingly, comments were received and some modifications have been selectively incorporated based on apparent validity as perceived by the Audit Team. Specific recommendations which we interpret as remaining unresolved, either in whole or part, include numbers 2, 4, 5, 10, 11, 16, 24 and 27.



We appreciate the assistance and cooperation shown by the officers and employees of the Authority during the course of the Audit.





## SUMMARY

- \*\*\* The federal formula that determines the amount of money the Housing Authority receives for maintenance of public housing units is seriously flawed. Major over allocations were received in some years and currently far too little is available. A major analysis is included in the Audit to assist HUD in an evaluation, and, hopefully, modification of the formula.
- \*\*\* Significant progress has been made by the Authority in areas recently criticized by HUD -- the 1980 HUD audit has been closed by the federal authorities, the HUD "troubled agency" status has been removed, and Section 8 rent subsidy authority utilization for 12,400 units has been moved from 84% to within 1% of the federal 95% standard. However, the fact remains that of the 1,053 new low rent public housing units HUD has authorized the Authority to construct since 1977, none has been completed. The Audit clearly points out major changes in federal and local procedures and efforts must be made. A special federal/local coordinating committee has been set up to address this situation. Its efforts and accomplishments should be routinely reported to the Mayor and Council.
- \*\*\* The Authority currently spends far too much time in crisis management. Excessive management turnover and vacancies and the lack of short- and long-term goals and objectives are key ingredients contributing to this situation. A number of specific recommendations are included that should substantially help the Authority in this area.
- \*\*\* Very serious crime problems exist at the larger public housing projects. A series of recommendations are made to address items ranging from increasing the size of security staffing to reviewing the possibility of improving the general environment by downsizing some projects and exploring the possibility of selling all or part of the units to tenants or others under the Urban Homestead Program or other similar legislation.





## RECOMMENDATIONS

(Note: With the exception of Recommendations Nos. 17 and 23, which are Policy in nature requiring Mayor/Council action, all other recommendations are Administrative and may be implemented by the Housing Authority as internal matters.)

### That the Board of Housing Authority Commissioners:

1. Take necessary steps to assume policy leadership of the Authority and establish specific means to regularly review the performance of the staff. Consideration should be given to the feasibility of establishing permanent subcommittees of Commission members to review more directly the policy aspects of the Authority's activities. (Pg. 16)
2. Direct the Executive Director to redraft the Authority's By-laws to clearly define the powers and duties of the Commission and the Executive Director, and submit the amended By-laws to the Board for its consideration. (Pg. 16)
3. Critically review the need for weekly Commission meetings, and the appropriateness of meeting on Monday mornings. (Pg. 17)
4. Review the need for weekly executive sessions, and take such steps as necessary to assure full compliance with legal provisions governing the use of such sessions. (Pg. 18)

### That the Housing Authority management:

5. Take specific actions to improve organizational and operational planning efforts. Serious consideration should be given to the following potentially beneficial steps:
  - a. Establishment of short and long range goals and objectives and timetables for achievement.
  - b. Establishment of management priorities among current issues and concerns.
  - c. Designation of specific individuals with specific planning responsibilities.
  - d. Involvement of a broad segment of Agency managerial staff in the planning process. (Pg. 19)



6. Take the following actions to improve the condition of employee morale:
  - a. Actively strive to improve the morale of the employees of the organization through improved and increased training, attention to the need for feedback and greater accessibility.
  - b. Initiate regular periodic group managerial staff meetings to facilitate lateral communications and the development of an effective management team.
  - c. Employ a private consultant to perform an employee attitude survey to determine specific points of difficulty requiring management attention. The City Personnel Department can assist the Housing Authority in this regard. (Pg. 20)
7. Update, simplify, and improve its Personnel Rules to conform to the recommendations made by the City of Los Angeles Personnel Department in December, 1979. (Pg. 23)
8. Instruct the Personnel Officer in charge of the Personnel Unit to:
  - a. Critically review the personnel recruiting procedure to eliminate unnecessary steps and reduce the amount of time required to provide qualified candidates.
  - b. Establish procedures to ensure the availability of current lists for all high turnover positions.
  - c. Review the use of temporary employment agencies to fill bilingual positions, and, if necessary, change the requirements, increase the salary premiums, or start an in-house training program to provide qualified personnel for those positions where needed. (Pg. 23)
9. Instruct the General Services Administrator to:
  - a. Reduce the number of classifications in the Authority by actively pursuing the potential for consolidating and reclassifying positions.
  - b. Maintain all job descriptions on a current basis. (Pg. 24)
10. Review the types of activities being performed by the contract law firm, and take steps to limit work delegated to the firm to that which is clearly legal in nature. (Pg. 24)
11. Establish a comprehensive centralized system governing formal task assignments originating with the Board of Commissioners and the Executive Director. (Pg. 25)





12. Take the following actions to improve housing production effectiveness:
  - a. Limit its production efforts to the HUD sponsored Low Rent Public Housing and Section 8 New Construction/Substantial Rehabilitation programs.
  - b. Initiate a restructuring of its Housing Production Department along the lines suggested in Appendix I of this report. (Pg. 37)
13. Establish a revolving fund for the Housing Authority from Community Development Block Grant funds to provide resources to retain architects to perform environmental impact reviews and other development activities eligible for preliminary loan support from HUD. (Pg. 40)
14. Take the following actions to improve project management:
  - a. Assign responsibility for implementing and monitoring all Housing Authority development projects to a Project Manager, whose duties should include the following;
    - (1) Develop an implementation schedule for each project.
    - (2) Notify HUD of the Housing Authority's expectations for HUD involvement in maintaining the schedule.
    - (3) Maintain a documentation file of correspondence with HUD regarding implementation of each project.
    - (4) Involve Housing Authority management whenever it becomes necessary to secure HUD management assistance to expedite HUD processing. (Pg. 46)
  - b. Seek the assistance of the Mayor and/or interested Council member(s) whenever HUD management is unresponsive. (Pg. 41)
15. Take the following actions to establish eminent domain proceedings as a viable method of property acquisition:
  - a. Prepare a draft policy for the development and utilization of eminent domain in the acquisition of properties for the development of low income housing, and submit the draft to the City Council for review and advice.
  - b. Adopt an official eminent domain policy, and actively exercise the power of eminent domain to acquire suitable sites for the construction of low and moderate income housing. (Pg. 44)





16. In the implementation of the second Urban Homestead contract, designate a project manager who will be responsible for the coordination and implementation of the total project. (Pg. 48)
17. That the City Council, subject to the approval of the Mayor, transfer administrative responsibility for the Urban Homestead Program on behalf of the City from the Housing Authority to the City Department of Community Development. (Pg. 49)

That Housing Authority management:

18. Employ a qualified consultant to study the problem of security and violent crime in the conventional projects, and to recommend ways to create a more stable environment. The consultant should evaluate, among others, the following alternatives:
  - a. Reduction in size and density of projects by closing some individual units or buildings.
  - b. Review of the possibility of sale of all or part of the units to tenants or others under the Urban Homestead Program.
  - c. Use of funds available for modernization to improve security to a satisfactory level.
  - d. Provision of more public and social services for tenants by cooperation with other agencies.
  - e. Encouragement of tenants to form stronger and more effective tenant organizations capable of enforcing tenant rules. (Pg. 52)
19. Reassess the philosophy behind the security operation with a view to clearly determining the kind of patrol unit required to meet the needs of the housing project residents. (Pg. 53)
20. That the Board of Housing Authority Commissioners request the Los Angeles Police Department to review the operations of its Patrol Unit and recommend staffing, deployment, equipment and material adjustments as needed for adequate security coverage of the conventional housing projects. (Pg. 53)
21. That Housing Authority management:
  - a. Specifically consider the implementation of a parking permit system for all conventional projects similar to the one now in operation at the San Fernando Gardens development in Pacoima.



- b. Instruct Project Managers to enforce the lease provisions prohibiting more than minor vehicle repairs on project property. (Pg. 55)
22. As a matter of high operational priority, the Housing Authority management not allow vacancies in the Finance Officer and Assistant Finance Officer positions to continue over an extended period of time as did occur for over a year prior to the May, 1981 employment of the present incumbents. (Pg. 58)
23. That the Mayor and Council transmit Appendix II of this report to the Department of Housing and Urban Development and request that agency to:
- a. Make a total review of how the existing PFS is functioning and make an evaluation as to whether it is achieving the results originally intended; and pending the results of such a review,
  - b. Amend Title 24, Chapter VIII, Part 890 of the Code of Federal Regulations as it relates to the Performance Funding System:
    - (1) To provide that the Wages Inflation Factor supplied annually by HUD on Form 52723D be computed based as much as possible on the trend of actual cost increases being incurred by the Public Housing Agency, in order to eliminate as much as possible the differences between the HUD Wages Inflation Factor supplied to calculate the HUD operating subsidy and the actual inflation rate experienced by the PHA in the ensuing year.
    - (2) To provide a mechanism for the retroactive adjustment of HUD's prior year's Wages Inflation Factor to a rate more consistent with that actually experienced by the PHA in order to eliminate the cumulative impact of compounding the error in the application of the PFS. Such mechanism may take any one of several forms; for example, it could be based on a revised Wages Inflation Factor supplied by HUD, or it could be based on the actual cost increases experienced by the particular PHA subject to HUD audit and approval.
    - (3) To provide that projected income, including dwelling rental income, be estimated by the PHA based on its own prior trends and other unique factors subject to review and adjustment by HUD, and eliminate that section now in Parts 890.101 and 890.109 of the Code of Federal Regulations which provide for dwelling rental income to be increased by a trend factor of three percent. (Pg. 59)





That Housing Authority management:

24. Actively pursue the development of a comprehensive, concise annual budget document, and a comprehensive, but simplified, annual financial status report. (Pg. 60)
25. Establish a formal project control system whereby each development project is given a control number and is described on a separate form which includes the property address, description of planned improvements, estimated costs by activity, proposed financing sources, pertinent contract and project numbers, and a schedule of completion, with such information approved by management. This system should include a summary list of all projects and should be updated annually. (Pg. 61)
26. Take the following actions to improve the Authority's system of financial controls:
  - a. Establish an internal auditor position reporting to the Finance Officer, with functional authority and responsibility throughout all divisions of HACLA, and also over computer programs and processing of the outside data service bureaus and mailing house (amending agreements if necessary to provide jurisdiction) to:
    - (1) Determine the adequacy of internal controls on all automated systems;
    - (2) Make recommendations for changes to establish internal checks and improve internal controls;
    - (3) Assist in the installation of such changes;
    - (4) Establish and implement routine audit procedures throughout HACLA, the data service bureaus and mailing house, including auditing "through the computer" as deemed necessary;
    - (5) Prepare procedural and audit manuals.
  - b. Request the City Controller to make available the advice and services of the Chief Systems Auditor and Chief Auditor in establishing and implementing the internal audit program. (Pg. 62)
27. Take the following actions to improve the accounts payable and purchasing procedures of the Authority:
  - a. Arrange for a review of the total purchasing and accounts payable paperwork procedures to maximize internal controls as discussed herein. (If Authority management should elect to employ a consultant to accomplish this recommendation, the staff of the City



Administrative Officer would be available to assist in the preparation of a Request for Proposal for consulting services).

- b. Establish a control procedure to assure that blanket purchase orders for necessary and frequently used items are re-issued in a timely manner to eliminate the undesirable practice of purchasing against expired purchase orders.
  - c. Direct the Authority's purchasing agent to annually request project managers to make recommendations regarding the types of materials and supplies which should be the subject of an Annual Purchase Order.
  - d. Direct the Authority's purchasing agent to establish and maintain a current tab card file containing the basic information from each Blanket Purchase Order and Annual Purchase Order, so that by use of data processing an updated printout of a current listing can be generated in several copies as required.
  - e. Direct the Personnel Division to establish and maintain a current tab card file containing information for a project manager roster, so that by use of data processing an updated printout of a current listing can be generated in several copies as required.
  - f. Direct the Finance Officer to maintain a current file of approved signatures of all those personnel authorized to receive materials, supplies, and services, and to sign for such receipt as a basis for approval of payment by the accounts payable clerk. (Pg. 63)
28. Encourage the formulation of Resident Councils in those projects where they are not now active, and demonstrate support for the activities of the Resident Councils on a continuing basis. (Pg. 67)
29. Take action to maximize rental income from conventional projects, within HUD guidelines, including the establishment of rent ranges and the selection of new tenants according to their placement within the rent ranges. (Pg. 68)
30. Take the following steps to improve the selection criteria for tenants for conventional housing:
- a. Provide training programs for Project Managers to refresh their knowledge of Manual procedures;
  - b. Instruct the Operations Department to audit the procedures in the project offices to ensure that:
    - (1) They are uniform and consistently applied;





- (2) Selection procedures are revised to require designation of a priority and preference on each application in the file; and
  - (3) In addition to the application register and any other files maintained, a file is established within bedroom size of all applications in priority and preference order with the higher priority first in the file, so that at a glance the relative priority of all applications on hand for a bedroom size would be revealed. (Pg. 69)
31. Continue to increase the number of Section 8 Existing units under lease, so as to fully meet HUD's objective of 95 percent of units authorized under lease. (Pg. 70)
32. Take the following actions to improve the effectiveness of the Fifteen Percent Ordinance:
- a. Intensify efforts to obtain compliance with the provisions of the Ordinance by housing developers/owners. Establish procedures to ensure that appropriate follow-up action is taken when developers pursue one of the Ordinance's optional compliance methods.
  - b. Continue to aggressively seek additional subsidy allocations from HUD for units certified under the Ordinance.
  - c. Accelerate marketing efforts to accomplish timely placement of eligible parties in allocated units.
  - d. Establish numerical placement objectives under the Ordinance and report achievement status periodically to the Housing Authority Commission. (Pg. 71)
33. Initiate a procedure whereby resident complaints are handled in a similar way at all conventional projects, including the preparation of a uniform complaint form to be filled out and signed by the complaining resident where appropriate. Also, a procedure should be implemented whereby a permanent record is maintained of complaints together with their disposition. (Pg. 73)
34. Take action to increase the central maintenance staff consistent with a realistic assessment of need and financial capability, thereby raising the level of maintenance of facilities to a reasonable standard. (Pg. 74)
35. Take the following actions to maximize the potential for improvement of the modernization activity:



- a. Expedite the accomplishment of the currently authorized modernization phases.
- b. Submit a final application for Comprehensive Improvement Assistance Program funds which will present in greater detail the needs of the housing projects, particularly with respect to security and management improvement requirements. (Pg. 75)

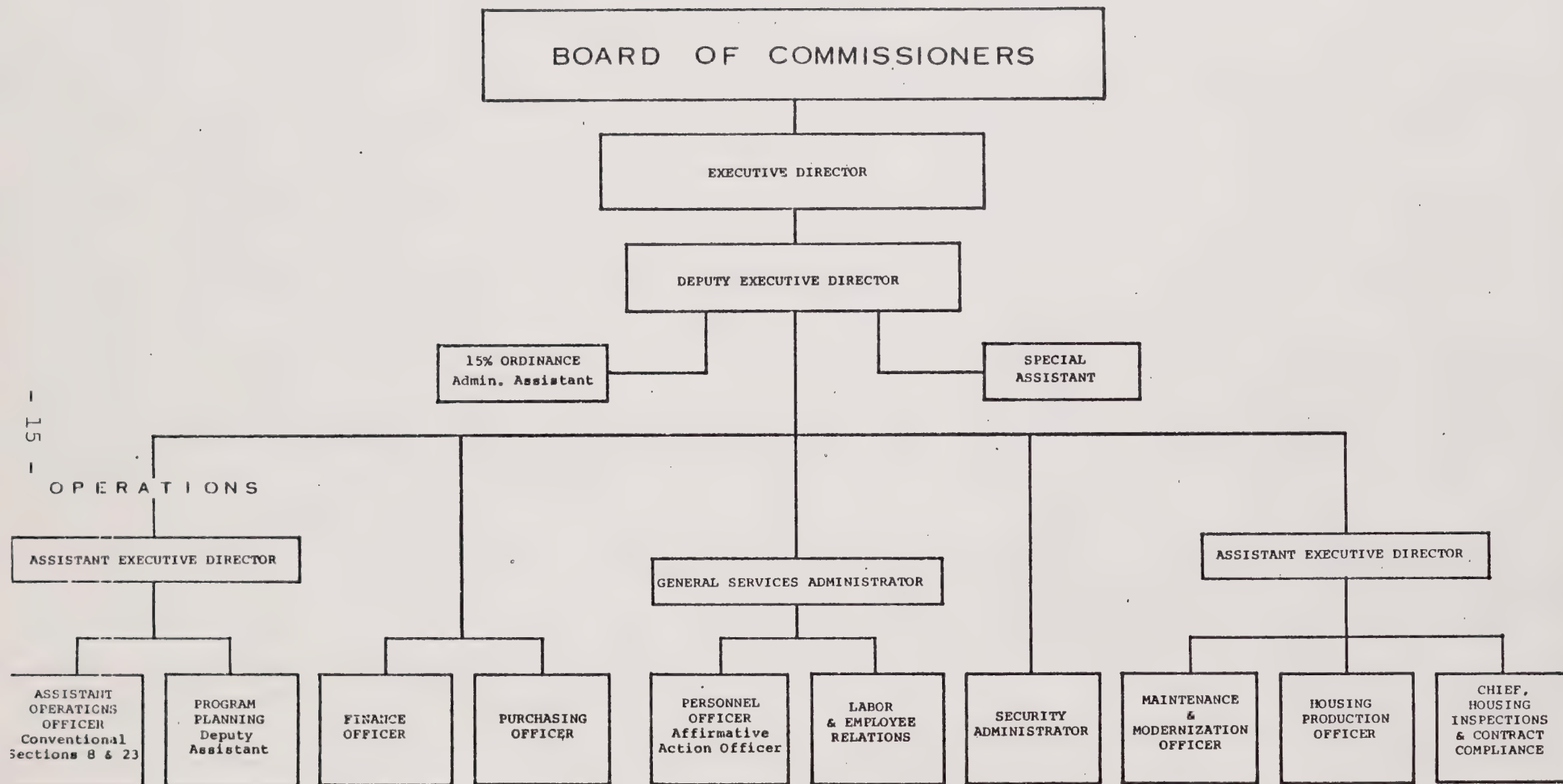




## FINDINGS

### I. GENERAL MANAGEMENT

# HOUSING AUTHORITY OF THE CITY OF LOS ANGELES



August 1, 1980  
Revised: May 18, 1981

## Board of Housing Authority Commissioners

The Commission of the Housing Authority, City of Los Angeles consists of seven members, including two members who are residents of Authority projects. This composition is authorized by, and is consistent with, Section 34270 of the Health and Safety Code of the State of California. The Code provides that either five or seven Commissioners may be appointed. However, if seven Commissioners are appointed the two additional Commissioners must be project tenants and one must be over 62 years of age. The Commission meets every Monday at 10:00 a.m., at the Central offices of the Authority, 515 Columbia Avenue, Los Angeles. The members are paid \$25.00 per meeting, plus necessary expenses.

Issue: The Board of Housing Authority Commissioners has maintained a relatively passive role in the management of the Housing Authority.

### Discussion:

The Commission has experienced a relatively high level of turnover among its members in the last 18 to 24 months. Four of the seven members have approximately one year or less of experience. Due to this lack of continuity and the comparative inexperience of a majority of the Commissioners, they have taken a limited leadership role in the Authority. For the most part, the input by the Commission into the operations of the Authority has been restricted to agenda items at the weekly Board meetings. To our knowledge, the Commission has not developed goals and objectives for the Authority and, at least for the last two years, has not formally evaluated the performance of the Authority or of the Executive Director. The Commission has not established specific review mechanisms which would allow the members to become more knowledgeable about the critical areas of concern within the Authority. An example of the type of administrative device which might be feasible is Board subcommittees on housing production, Section 8 rentals, security, budget, personnel, etc. (See Recommendation No. 1)

Issue: The powers and duties of the Commission are not clearly defined in the By-laws of the Authority.





Discussion:

Normal practice for an organization such as the Housing Authority would be to have a clear, unambiguous set of By-Laws to delineate and define the role of the Commission in relation to the Executive Director. The By-laws of the Housing Authority do not contain a clear statement of the powers and duties of the Commission. As presently constituted, the By-laws are broadly stated guidelines for the Executive Director. As an example, Article IV states:

Section 1: Basic Policies. The Executive Director shall formulate and recommend to the Commission basic guidelines, consistent with applicable laws, contractual agreements, and the By-laws of this Authority, covering all matters relating to the development, administration, management and operation of the Authority's program.

Section 2: Administrative Regulations and Rules of Procedure. The Executive Director is hereby authorized to formulate, establish and from time to time revise administrative regulations and rules of procedure, consistent with applicable laws, contractual agreements, the By-laws of the Authority and the basic policies established by the Commission, covering all matters relating to the development, administration, management and operation of the Authority's program.

Section 3: Manual of Policy and Procedure. The Executive Director shall compile and maintain a Manual of Policy and Procedure which shall include all policies, administrative regulations and procedures of the Authority including personnel policies and regulations. Copies of the Manual of Policy and Procedure shall be made available to all concerned.

The By-laws do not specify who has the ultimate operational responsibility for the Authority. In fact, it almost appears from Section 1, Article IV, that the Commission has no power to adopt policies unless they are formulated and recommended by the Executive Director. As the By-laws are currently constituted, the potential exists for the Commission and/or the Executive Director to fail to understand their role and relationship. (See Recommendation No. 2)

Issue: The Commission practice of meeting weekly may not be necessary. Monday morning meetings are untimely in terms of the normal pattern of operating occurrences,



and inefficient in terms of the time and effort required of staff to prepare for meetings.

Discussion:

Monday morning is a difficult time to hold Commission meetings. Agendas are usually prepared the prior Wednesday and Thursday and four to five days elapse before the material is presented to the Commission. Often problems occur over a weekend and little, if any, time is available to properly present this information to the Commission. Examples of problems that would be of interest to the Commission would be major maintenance breakdowns; acts of violence directed at tenants, employees and/or police; major damage or acts of vandalism; or political announcements which impact Authority operations.

During the course of this Audit, we reviewed the weekly Commission agenda for the 1980 calendar year. In addition, we discussed with management of the Authority, as well as certain individual members of the Commission, the need for weekly meetings. Based on our review and these discussions it is our assessment that weekly meetings are not always necessary. This assessment is confirmed by management of the Authority as well as the President of the Commission. (See Recommendation No. 3)

Issue: The Board of Housing Authority Commissioners' practice of holding weekly executive sessions to discuss "personnel and legal matters" may be technically inconsistent with provisions of the Brown Act.

Discussion:

A review of Commission minutes reveals that the Commission holds executive sessions at almost each weekly meeting. The Brown Act of the State of California is specific in identifying those subject areas for which executive sessions may be held. Generally speaking, holding executive sessions at each weekly meeting would appear to be unnecessary and may indicate a questionable interpretation of the provisions of the Brown Act. It is our observation, based on previous audits of other City departments/agencies, that few commissions call executive sessions at each weekly meeting. Since the Audit Team did not attend the executive sessions called by the Authority's Commission, we are unable to make a direct statement regarding the appropriateness of this practice. We raise the issue for the consideration of the Commission, recognizing the interpretive and judgmental aspects present in a decision to call executive sessions. (See Recommendation No. 4)





## Planning

Issue: Formal planning for the Housing Authority, both for operations and administration, is very limited, with insufficient resources assigned to the function. As a consequence, management decisions are made in a spontaneous, reactive manner, with seemingly minimal consideration given to alternatives.

### Discussion:

The Housing Authority operates in a complex, dynamic environment characterized by the continuous expression of needs and demands by many constituencies. Authority staff interrelate with residents, landlords, employees, other governmental agencies, elected officials, developers, contractors and the news media. In order to function effectively with the many and varied entities which compete for Authority attention, a viable organization must be developed. The potential for a more effective management structure at the Authority can be enhanced by the input and active involvement of the department managers in key decisions. A coordinated, well planned team effort is required to address the full range of management activity.

While the management of the Authority does not appear to lack in proper intent with respect to the planning function, there is insufficient attention directed to the establishment of realistic goals and objectives for future operations. Little, if any, time or resource is devoted to advance planning. Management is constantly dealing with "emergencies". Problems are not anticipated. Proper planning would enable the Authority to anticipate problem areas and take preventive action. Such management problems as no new housing production, deteriorating facilities, lack of security for tenants, low morale of employees, continuous reorganization, and extremely high turnover at the division manager level should be identified as early as possible and addressed in a positive manner. The Authority added a position of Deputy Assistant for Program Planning in May, 1981. The position was filled on a temporary basis July 31, 1981. The concern of this Office is not with management planning as a delegated assignment, but rather with formal planning of organizational objectives and strategies by top management of the Authority. (See Recommendation No. 5)



## Morale

Issue: The morale of employees at the Housing Authority is declining.

### Discussion:

Observations during this Audit lead us to the conclusion that employee morale at the Authority is declining. This condition was brought to our attention consistently throughout the ranks of the employees of the Authority. The problem appears to exist at many levels of employment. Some of the alleged reasons cited for the condition are lack of training and career mobility within the Authority, heavy workload brought about by layoffs and vacant positions not being filled, isolation of the Executive Division from the other operating departments, and, in particular, the inability of top management to perceive these causes of employee dissatisfaction.

Symptomatic of this dissatisfaction has been extremely high turnover of key positions in the organization. As an example, since February, 1980, the Authority has employed five different Finance Officers, one of the most important positions in the organization. At the time of the Audit, long term vacancies existed for the Finance Officer, Assistant Finance Officer, the Purchasing Manager, the Housing Production Manager, and the Section 8 Operations Officer. The turnover and longterm vacancies have directly contributed to a lack of continuity and instability within the organization. In turn, this may be having a deleterious effect on the morale of the employees in those units where the above mentioned positions are assigned.

Authority management has expressed to the Audit staff its concern with managerial performance within the organization. The Authority's personnel rules were said to have made it difficult in the past to replace managers who failed to meet performance standards. To remedy this situation, the Executive Division presented to the Commission on July 16, 1979, a resolution which exempted newly hired department heads from provisions of the Housing Authority rules. Resolution Number 4652 adopted by the HACLA Commission provides that department heads serve at the pleasure of the Director and may be removed without cause. Incumbents in those positions at the time of the adoption of this resolution were not affected. It was not apparent during the Audit that the adoption of this resolution has improved, to any significant degree, the managerial working relationships at the Authority.





We have observed that managers are hired and provided minimal, if any, direction and training. Individual responsibilities are not well defined, and the Executive Division's ability to make objective appraisals of performance is impaired because there is neither formalization nor agreement regarding goals and objectives. The lack of specific direction by the Executive Division combined with the minimal feedback provided to many department managers has inhibited the development of a "team concept" at the Agency. It appears the Executive Division has not counseled managers routinely as to what is required in the way of job performance. Managers are left to their own discretion to manage their respective operations in accordance with self-determined requirements. Senior level managers expressed a feeling of isolation from the decision making process and frequently commented about the inaccessibility of the Executive Director. This feeling of isolation is encouraged by the reliance of the Executive Director on retained legal counsel for nonlegal advice and the fact that group staff meetings with senior level managers and the Executive Director are scheduled rarely. Although the Director meets weekly with the individual managers, they are not joint meetings and, while productive, they are inordinately time consuming and do not foster free exchange between managers. Periodic staff meetings with all senior level department managers would improve interdepartmental relationships, lateral communications and morale, and would help to build a team concept.

The management process of the Housing Authority is involved too much in "management by crisis". As a result, the Authority is vulnerable to major problems due to a lack of planning and organization. The Authority needs to adopt a new management philosophy based upon short and long range planning, greater accessibility and team effort, and definitive goals and objectives. Department managers should be allowed flexibility to run their departments within specified guidelines to meet the objectives of the organization as a whole. (See Recommendation No. 6)

#### Personnel Management

In August, 1980, Housing Authority management reorganized the Personnel Department into two separate organizations, an Employee Relations unit and a Personnel unit. In February, 1981, the Authority again reorganized to create a position of General Services Administrator with overall responsibility for both units. The Employee Relations unit is responsible for all employee negotiations, grievance handling, and workers' compensation administration. The Personnel unit is responsible for the classification plan, recruiting, test



administration, personnel files, personnel transactions, employee evaluations, and wage and salary administration. The Employee Relations unit consists of one Personnel Analyst II, and one Secretary/Stenographer. The Personnel unit consists of one Personnel Officer, one Personnel Clerk, and one Secretary/Stenographer.

The Housing Authority currently has five recognized employee bargaining units. They are:

- \* Building Trades Council
- \* AFSCME (Clerical)
- \* Peace Officers (Supervisory)
- \* Peace Officers (Non-Supervisory)
- \* Council of Housing Professionals

The Authority has no Employee Relations Board. Disputes over salaries and working conditions are either resolved through negotiations or impasse is filed and each side presents its case to the HACLA Commission. The Commission acts as the hearing board in the latter cases. If the union and management cannot reach a mutually agreeable settlement, management may make a "last, best and final offer". In these cases the Commission may implement this offer without the requirement of a Memorandum of Understanding (MOU). This has been the method of resolution with most of the bargaining units in the last few years. The exception is the Building Trades Council which usually settles amicably and has had a MOU each of the past few years. Since the Personnel Rules for the Authority contain the grievance procedure and the Authority has never made an issue of dues checkoff, there has not been a great deal of pressure placed on either management or the unions to have an MOU. Salary increases are implemented, the grievance procedure remains in place, and the unions continue to receive dues deductions from their member's paychecks without benefit of an MOU.

Since the Authority operates on an August-July year, its negotiations take place after the City's are well along or completed. Normally, the City's negotiations are used as a guideline in determining Authority parameters. Many City and County job classifications are used as benchmarks in salary setting.

The benefits that HACLA employees receive are generally consistent with those of City employees. Authority employees are members of the Public Employees Retirement System (PERS) and the Social Security System. The Authority provides 50 percent of the employee's health insurance premiums, but does not provide dental insurance coverage since it is prohibited by HUD. Employees receive 11 and 1/2 holidays per year, as well as national





election days off, and their vacation provisions are similar, but not identical, to those of City employees.

Issue: The Housing Authority's Personnel Rules are outdated and in need of general improvement.

Discussion:

The Los Angeles City Personnel Department made a personnel rules survey for the Housing Authority in December, 1979, at the request of the City's Personnel and Labor Relations Committee. Twelve specific recommendations for change in Authority Personnel Rules were made. The Housing Authority concurs with the results of this survey, but has implemented only a few of the recommended changes to date. (See Recommendation No. 7)

Issue: The excessive amount of time required to recruit new employees creates serious managerial and operational problems.

Discussion:

A common complaint voiced by HACLA management and project personnel has been the excessive time required to fill vacant positions. If a list does not exist, up to three months may be required to fill a vacancy. The problem was even more noticeable at the time of the Audit due to a fairly high rate of turnover at certain positions (Patrol Officer and Eligibility and Occupancy Interviewer), and budget reductions which placed a substantial workload on the positions that were filled. Current procedures require that when a position becomes vacant the division head requests the HACLA Personnel Department to prepare a list of qualified candidates. The Personnel Analyst in charge of the recruitment effort then prepares a job bulletin which must be approved by the Personnel Officer, the division head where the vacancy exists, and the Executive Director. Job bulletins need not be approved by the entire chain of command every time a list expires. They should be written in such a manner that constant updating is not required. This alone could save between two and four weeks in the recruiting process.

The Personnel Department should keep current lists available. Staff should not wait for a department request to fill a position before they start recruiting. This is particularly true on high turnover positions.



HACLA has used temporary employment agencies regularly to help fill many of their bilingual positions. Two positions that require bilingual skills have been vacant for over eight months and temporary employment agencies have been used. HACLA should review the need for bilingual skills, consider making premium adjustments for those skills, or start an in-house training program to provide qualified personnel for the positions where required. (See Recommendation No. 8)

Issue: The classification plan for the Housing Authority is cumbersome and incomplete.

Discussion:

HACLA has over 100 different classifications for approximately 580 employees. This number should be reduced by reclassifying and consolidating positions wherever possible. This approach would increase the number of employees in each classification and would reduce the number of recruitments. The time required to fill vacant positions would also be reduced. Due to the heavy workload in the recruiting unit and the recent reorganizations of many divisions which have created numerous new positions, job descriptions are not current. All job descriptions in the Authority should be kept up to date. (See Recommendation No. 9)

Legal Function

Issue: While it provides necessary and valuable services to the Housing Authority, the contract legal firm appears to become too involved in the day-to-day management decision making process.

Discussion:

The Housing Authority contracts for legal services with a private law firm. The firm has been providing legal services to the Authority since November, 1978, and has been operating under a formalized retainer agreement with the HACLA since September 1, 1979. Under the current agreement, the firm receives a monthly retainer of \$3,210. In addition to this retainer, special services are performed with the approval of the Housing Authority Board of Commissioners at an hourly rate of \$80. During the 12-month period from October 1, 1979, through September 30, 1980, billings from the firm averaged approximately \$4,500 per month.





The contract legal firm performs a wide range of duties for the Authority, including the drafting of contracts, leases, property acquisitions, and various services in connection with litigation and administrative hearings. Over a period of time, the members of the firm appear to have become involved in matters which more appropriately should be handled by Authority management and/or administrative personnel. Personnel matters provide one example of such involvement. Prior to the employment of an individual to conduct employer-employee relations activities for the Housing Authority, a member of the legal firm assumed many of these functions on behalf of Authority management. Other activities in this vein include acting in an advisory role to Authority management during the employee termination process, and advising management in certain instances regarding the hiring and retention of key personnel.

At the time of the Audit, the firm had a contract with HACLA whereby it was revising and rewriting the Authority's Manual of Policy and Procedure, Part II. Subjects contained in this manual include tenant selection, maintenance policies, income limits and rent schedules, and eligibility and income. Other areas which are questionable include the preparation of insurance specifications and certain resolutions amending the personnel rules. It would seem more appropriate to assign this type of task to the administrative staff of the Housing Authority. (See Recommendation No. 10)

#### Task Assignment Control

Issue: The current procedures utilized by the Housing Authority to control formal task assignments do not appear to provide sufficient protection to assure timely and appropriate disposition.

#### Discussion:

The secretarial staff in the Executive Division maintains a record of correspondence received by the Executive Division which requires action. This staff also maintains records of work which the Executive Division assigns to the various divisions. Other work may be assigned by the Executive Division orally or correspondence may be received directly by departments which are not included in the records kept in the Executive Division. This practice is potentially damaging to the Authority for a number of reasons. Correspondence may be received and a response generated without the knowledge of the Executive Director. In some cases the response may be contrary to, or inconsistent with, policies of the Executive Director. The possibility also exists that communications may not reach the proper office or that the department receiving the item will not





give it the priority it deserves. Work may be inadvertently neglected and adverse impressions may be created. Authority management should establish a comprehensive centralized system for assigning work to enable the Authority to maintain improved control at all levels of the operation. (See Recommendation No. 11) In responding to the draft audit report, the Authority has supported the present system, which involves the generation and review of a "Pending Assignments" list, as adequate for control purposes.



II. HOUSING PRODUCTION





## Housing Production Department

The Housing Production Department is responsible for producing, or facilitating the production on behalf of the Authority of, low and moderate income housing. The concern of some Council members that the Authority was not fulfilling its production potential was in part responsible for the request that a Management Audit of the Housing Authority be initiated. Because of this concern the Audit focused on identifying the resources available to the Authority to effect production, and also upon certain production related questions which formed the basis of the housing production analysis.

The Authority subsidizes rental units primarily through three programs:

- \* Low Rental Public Housing (LRPH) - Under LRPH the Authority owns, maintains and operates large scale projects constructed through HUD financing mechanisms. The Authority currently operates 21 such projects. The annual subsidy for the maintenance and operation of these 21 conventional projects is determined by a Performance Funding System (PFS) formula. HUD provides the difference between the formula amount and other revenues received from the projects, such as rent.
- \* Section 23 - The Authority does not build or own Section 23 units. Instead, it enters into a lease with the landlord, and then subleases the units to low income tenants. This program is being phased out and Section 23 leases are not being renewed.
- \* Section 8 - This program is similar to Section 23. Under Section 8 the Authority may or may not own the units which are leased to low income tenants. HUD subsidizes the rent payments up to the Fair Market Rent (FMR). The FMR subsidy varies depending on whether it is an existing, newly constructed or rehabilitated unit, and upon the individual tenant's ability to pay.

There are several programs or mechanisms available by which the Authority can increase its housing inventory.

LRPH PROGRAM RESERVATIONS  
STATUS SUMMARY

Table 1

Project No.	Project Title	Program Reservation			Est. Units	Unit Type	Status
		Date	Loan Auth.	Prog Units			
CA16-P004-039+059-82		9/30/77					
039,+054-82	Turnkey		\$12,027,575	300	150*	Family	Proposals Received Oct 80
	Subtotal		\$12,027,575	300	150		
CA 16-P004-042 to 056		8/3/78					
•042,43,44,45	Commodore Hotel		7,423,848	160	100	Elderly	TSA-4/8/80 Design Phase
046&047	Simpson Saticoy		3,588,550	78	45	Elderly Family	40 5 TSA-Complete Design Phase
048,49,50,51	Yosemite Dr		7,091,061	154	80	Elderly	TSA-3/25/80 Design Phase
052	Sheridan Manor VI-8 units VII-13 units		1,708,236	37	21	Family	TSA-8/19/80 Design Phase
056	Wilmington Gardens		1,751,225	38	21	Elderly	Preliminary Site Report & Dev. Prog to HUD 4/28/80
053,54,55	Uncommitted		5,167,697	112		Family	--
	SUBTOTAL		26,730,617	579	267		
CA16-P004-057+083 to 090		9/16/79					
057	Tularosa Dr.		474,052	9	5	Family	TSA-3/25/80 Design Phase
083	563-565 W 92nd St.		\$ 474,052	9	5	Family	TSA-3/19/79 Design Phase
084	1330 W. 57th St.		474,052	9	5	Family	TSA-6/19/80 Design Phase
085	1102 E. Cruces St.		474,052	9	7	Family	TSA-10/16/80 Design Phase
086	E. 51st, 76th St., 97th St.		474,052	9	5	Family	TSA-10/16/80 Design Phase
087	2324 & 34 Ridgley Dr.		474,052	9	6	Family	TSA-10/16/80 Design Phase
088,89,90	Uncommitted		1,386,092	26	-	Family	--
	SUBTOTAL		4,230,404	80	33		
*Estimate by HA							
CA16-P004-058-091-101		9/12/79					
058	Montclair		500,096	8	5	Family	TSA-5/18/80 Design Phase
091 to 101	Uncommitted		5,276,775	86	-	Family	Uncommitted
	SUBTOTAL		5,776,871	94	5	-	-
	TOTAL COMMITTED		36,934,903	829	455		
	TOTAL UNCOMMITTED		11,830,564	224	123		
	TOTAL		\$48,764,467	1053	598		

HUD Sponsored Development Programs - Through the Low Rent Public Housing (LRPH) and Section 8 New Construction/Substantial Rehabilitation Programs, the U.S. Department of Housing and Urban Development provides resources to stimulate the construction of low income housing. Since these two programs constitute the primary resources for low income housing production, they will be discussed in more detail below.

The California Housing Finance Agency (CHFA) administers HUD sponsored low income housing resources which it in turn makes available to PHA's and private developers.

Other Development Resources - In addition to the development resources and rent subsidies available from HUD, the Housing Authority can utilize Community Development Block Grant funds and Housing Authority revenue bonds for housing development. The use of Block Grant funds is limited to land acquisition and related development, while revenue bonds can be used for the full range of development activities.

Eminent Domain - Although not used by the Authority, it is a significant resource that could be used to acquire sites on which to construct public housing.

The recent criticism of the housing production efforts of the Authority stems largely from the lack of production of LRPH family units. The LRPH program is the traditional or conventional public housing program, and can be implemented only by PHA's. At the time of the Audit, the Authority had received program reservations from HUD totalling 1,053 units of LRPH; to that date, none of these units were in construction even though the initial program reservation of 300 units was received in September, 1977. (See Table 1 for a status summary of the Authority's LRPH Program Reservation. See Appendix IV for a chronological history of the first program reservation issued to the Authority.) In the Spring of 1980, the Authority applied for an additional program reservation authority of 394 units which would raise the total reservation authority for LRPH family units to 1,547. In addition to the program reservations for the construction of new units, the Authority has approval from HUD to acquire and substantially rehabilitate 98 family units to be supported under the LRPH program. This total will be increased by 112 units if HUD approves a Housing Authority request for an additional program reservation submitted in the Spring of 1980. Table 2 provides a summary of properties purchased and available for construction of LRPH units.

The second major HUD supported housing production program is the Section 8 New Construction/Substantial Rehabilitation program. The Section 8 program is essentially a rent subsidy program in which HUD guarantees the payment of Fair Market Rents (FMR's) for units constructed under the program.



Table 2

PROPERTY PURCHASED FOR DEVELOPMENT UNDER LRPH							
ADDRESS	DATE OF PURCHASE	PURCHASE PRICE \$	PROJECT NO.	PROPOSED USE	NO. OF UNITS	STATUS OF APPROVAL	STATUS OF PROCESSING
Westside Manor 1224 S. Norton St.	1/30/79	164,500	CA16-P004-038	Elderly	34	-	Under construction
Commodore Hotel	7/30/80	1	CA16-P004-042	Elderly	100	Tentative site approval (TSA) April 8, 1980	In design phase
Simpson/Saticoy	2/16/79	211,500	CA16-P004-046	Family Elderly	5 40	Tentative site approval	Design submitted to HUD for approval
1530-1536 Yosemite Drive	10/26/78	250,000	CA16-P004-048	Elderly	80	Tentative site approval March 25, 1980	In design phase
Sheridan Manor VI 1833 West 5th Street, and Sheridan Manor VII 1250 South Western Avenue	Pending	N/A	CA16-P004-052	Family	21	Preliminary site reports submitted to HUD August 19, 1980	Pending TSA
Wilmington Gardens 205 East Opp Street	4-05-79	47,000	CA16-P004-056	Elderly	21	Initial submission to HUD April 28, 1980	Pending TSA
744 N. Tularosa Drive	2-08-79	52,500	CA16-P004-057	Family	5	Tentative site approval March 25, 1980	Design submitted to for approval
3814-16 Montclair and 3910 (AKA 3918) Montclair Streets	9-24-80	3,500	CA16-P004-058	Family	5	Tentative site approval May 19, 1980	In design phase
563-565 West 92nd Street	7-14-80	23,000	CA16-P004-083	Family	5	Tentative site approval March 19, 1979	In design phase
1330 West 57th Street	7-29-80	28,675	CA16-P004-084	Family	5	Preliminary Site Report submitted to HUD June 19, 1980	Pending TSA
1102 East Cruces Street	10/80	53,300	CA16-P004-085	Family	7	Preliminary Site Report (PSR) Submitted to HUD on October 16, 1980	Pending TSA
Scattered Sites East 51st Street East 76th Street East 97th Street	N/A N/A N/A	N/A N/A N/A	CA16-P004-086	Family	5	PSR Submitted to HUD October 16, 1980	Pending TSA
2328-34 Ridgley Drive	Pending	N/A	CA16-P004-087	Family	6	PSR Submitted to HUD October 16, 1980	In process of acquisition Pending TSA

## SECTION 8 ELDERLY PROJECTS COMPLETED

BY

L.A. CITY HOUSING AUTHORITY

PROJECT	NO. UNITS	NOFA* APPLIC.	CONST. PROPOSALS	CONST. BEGAN	CONST. COMPLETED	CONTRACTOR
OWENSMOUTH	281	11/75	8/77	12/77	5/79	GOLDRICH & KEST INC. & SHAPELL GOVT. HOUSING INC.
LAS PALMAS	74	1/76	4/78	8/78	11/79	GOLDRICH & KEST INC. & SHAPELL GOVT. HOUSING INC.
RESEDA EAST	70	8/76	11/77	4/78	11/79	SHAPELL GOVT. HOUSING INC. & GOLDRICH & KEST
RESEDA MANOR	40	8/76	11/77	4/78	11/79	SHAPELL GOVT. HOUSING INC. & GOLDRICH & KEST
UNION FERARRO TOWERS	<u>200</u>	NA	NA	NA	2/77**	NA

\*NOFA - NOTICE OF FUNDING AVAILABILITY

\*\*Units purchased from developer after completion. Originally a Section 23 development to be retained by owner developer.





HUD does not provide financing or construction costs, but it does review proposals and approve site selection and design criteria for projects scheduled for participation.

The success of the Housing Authority's efforts at housing production has been very limited. Since 1973 no LRPH units have been produced, and only 665 units of Section 8 Elderly units have been completed. (See Table 3 for a Summary of Section 8 Constructed Units.) At the time of the Audit, 32 Section 8 Elderly units were under construction, and the Authority either owned or had preliminary proposal approval for Section 8 New Construction development on eleven properties with 55 units. (See Table 4) During the same period private developers with Housing Authority sponsorship constructed 1,135 units of elderly Section 8 housing units (See Table 5). This raises the question: Why has the Authority produced only Section 8 housing for elderly persons when resources are available for the production of the more traditional Low Rent Public Housing and family units?

Our findings indicate that HUD policies have a tremendous influence on the type of housing production that will take place. The resources available for Section 8 production provide a better guarantee to the sponsor that costs will be recovered. The application of the Performance Funding System formula to the Low Rent Public Housing Program units does not provide a similar guarantee (See separate issue discussion in this report). There is strong suspicion that Section 8 units are much more cost effective to administer than LRPH units because of the nature of the HUD subsidy. Furthermore, elderly units are favored over family units because the HUD imposed minimum property standards governing elderly housing are less restrictive.

The failure of the Authority to make significant progress on the production of Low Rent Public Housing Units for families has placed the Authority in a position to be criticized for its lack of production. Because HUD views the LRPH program as a vehicle for the City to address its housing needs as articulated in the Housing Assistance Plan, a failure to make a good faith effort at production jeopardizes the City's Block Grant allocation from HUD. Failure to produce LRPH when resources are available also denies citizens access to safe and decent housing that otherwise could have been provided because only Public Housing Agencies can produce LRPH, whereas both private developers and PHA's can utilize the Section 8 program.

We do not suggest that the Housing Authority has deliberately downplayed LRPH production, but rather has emphasized the avenues of least resistance in its housing production. Our findings suggest that the per unit subsidy for Section 8 housing is greater than for LRPH, thus giving housing authorities a greater edge against deficits. From a purely business standpoint, Section 8 appears to be a more economically sound program for the PHA than is the LRPH Program.

Table 4

PROPERTY PURCHASED FOR DEVELOPMENT UNDER SECTION 8 H.A.P.P. (FOR NEW CONSTRUCTION)

<u>ADDRESS</u>	<u>DATE OF PURCHASE</u>	<u>PURCHASE PRICE \$</u>	<u>PROJECT NO.</u>	<u>PROPOSED USE</u>	<u>NO. OF UNITS</u>	<u>STATUS OF APPROVAL</u>	<u>STATUS OF PROCESSING</u>
624-632 N. Juanita Blvd.	2-08-79	48,800	CA16-0068-007	Family	5	Preliminary proposal approved 4/16/80	In design
2628-2632 S. Brighton Ave.	Pending	5,000	CA16-0068-008	Family	5	Preliminary proposal approved 5/12/80	In design
1632-1640 N. Coronado St.	2-08-79	46,000	CA16-0068-010	Family	5	Preliminary proposal approved 4/16/80	In design
2913-2923 S. Dalton Ave.	Pending	5,000	CA16-0068-012	Family	5	Preliminary proposal approved 4/16/80	In design
2906-2916 S. Brighton Ave.	Pending	5,000	CA16-0068-015	Family	5	Preliminary proposal approved 4/16/80	In design
1424 & 1504 S. Manhattan Place design	4-28-80	57,270	CA16-0068-036	Family	5	Preliminary proposal approved 6/3/80	In design
3910 Guardia Avenue	8/13/79	60,000	CA16-0068-037	Family	5	Preliminary proposal approved 6/3/80	In design
1286-1292 W. Jefferson Blvd.	8/16/79	52,200	CA16-0068-038	Family	5	Preliminary proposal approved 6/3/80	In design
6927 Simpson Avenue	4/30/80	130,400	CA16-0068-039	Family	5	Preliminary proposal approved 6/3/80	In design
Apperson/Fernglen, Tujunga	8/16/79	45,000	CA26-0068-040	Family	5	Preliminary proposal approved 7/2/80	In design
1104 Browning Boulevard	7/26/79	31,500	CA16-0068-041	Family	5	Preliminary proposal approved 6/3/80	In design

PROPERTY PURCHASED FOR DEVELOPMENT UNDER

LOW COST HOUSING DEVELOPMENT FUND IN COUNCIL DISTRICT SEVEN

<u>ADDRESS</u>	<u>DATE OF PURCHASE</u>	<u>PURCHASE PRICE \$</u>	<u>SOURCE OF FUNDS (COMMITMENT)</u>	<u>PROPOSED USE</u>	<u>NO. OF UNITS</u>	<u>STATUS OF APPROVAL</u>	<u>STATUS OF PROCESSING</u>
14060 Van Nuys Blvd.	3/23/78	70,000	Existing Section 8 CDBG and Tax Increment Funds CETA labor	Elderly	32	N/A	Construction halted by fire

Table 5

## PRIVATE OWNER SECTION 8 PROJECTS COMPLETED

PROJECT	UNITS	CONST. COMPLETED	DEVELOPER
1. Las Palmas Apartments	47	October 79	Henry Cordova
2. Pico Union Villa	115	September 79	Pico Union Development Corp.
3. Sunset Norm- andie Towers	148	October 80	Sunset Normandie Towers Ltd.
4. Martel Park	72	September 79	Safran/Levine
5. Hancock Gardens	66	March 79	Lesney Development Co.
6. Wilton Wilshire Arms	72	September 78	Goldrich and Kest Inc.
7. Fairfax Senior Citizens Apts.	45	May 79	Scholer & Associates
8. Casa Serena Apts	29	August 80	Henry Cordova
9. Park View Terrace	94	April 77	Park View Terrace Ltd.
10. Willow Villa	84	January 77	Goldrich & Kest, Hersch & Stern
11. Sherman Arms	74	July 76	Goldrich & Kest
12. Woodman Manor	100	August 77	Lancan Corp.
13. Calif. Home for Aged (Menorah House)	51	July 77	Menorah Housing Found.
14. Cedros Apt.	70	December 76	WOGO Developer
15. Northridge Manor	<u>68</u>	December 76	Biafora & Weiner
Total Units	1135		





The failure of the Housing Authority to fulfill its housing production expectations can in part be attributed to the following factors:

- \* The HUD required process by which housing authorities obtain approval for and complete the construction of housing units, and the attendant delays by HUD in completing its responsibilities at the various phases of the housing production process.
- \* The failure of the Housing Authority to adequately plan for the utilization of the HUD program reservation commitments, and to follow-up with HUD when delays occurred.
- \* The unavailability of funds to purchase properties for housing production, and the difficulty in locating and acquiring suitable sites.
- \* The inability to contract for architectural services because funds are not available.
- \* The assumption by the Authority of production responsibilities/commitments in excess of the resources and staff available to complete them expeditiously.

The Audit has attempted to address each of these factors to provide direction to the Authority to improve its effectiveness in housing production. Specifically, it is suggested the Authority give special attention to LRPB production to exhaust its existing program reservations and get units into production.

Finally, the Audit recommends that the Authority no longer involve itself in the innovative housing production plans it has attempted in the past, since it is obvious that the Authority does not at this time have either the experience or the freedom of movement enjoyed by private developers to successfully implement nonsubsidized development plans. The latter conclusion is borne out by the Housing Authority's response to the Audit which cites the current experience with the LRPB Turnkey program; experience which has resulted in 83 proposals for the development of in excess of 500 multi-family units which will yield 300-350 production units. These results tend to confirm the Audit's position that the Authority should emphasize programs aimed at completing the Authority's LRPB commitments.



## Housing Production Planning

Issue: The Housing Authority has not adequately planned its housing production efforts and has assumed production responsibilities in excess of its ability to perform.

### Discussion:

Article 34 of the State Constitution prohibits the development, construction, or acquisition of low rent public housing projects by cities, towns, or counties unless approved by a majority of the electors of the city, town or county. This provision was included in the State Constitution in November, 1950. Not until 1973 did the electorate of Los Angeles grant approval for the development of low cost housing within the City. Until June 1980, the number of low cost family units that could be constructed per site was limited to a maximum of five units. The five-unit-per-site limitation for family units was raised to 30 units in June 1980.

Development of the Authority's low cost housing construction program is the primary responsibility of the Housing Production Department. The Housing Production Department was originally organized on the premise that the Authority would provide its own project designs and develop projects in accordance with those designs. The Authority experienced a great deal of difficulty with this approach because the five-unit-per-site limitation for low cost family projects dictated the preparation of numerous design alternatives. To illustrate, the Authority's program reservation of 1,053 family units would necessitate the preparation of over 200 different project designs in order to accommodate a five unit limitation.

The Authority's attempt to rely on in-house design capabilities contributed to development delays. Architectural design is very labor intensive, and the Authority staff was and is not large enough to perform this function effectively. Authority management recognized this limitation and has changed its policy to emphasize the use of independent contract architects for design services. Under this policy, the Authority staff will work with the independent architects to insure that the designs conform to the HUD standards.

However, there is a more fundamental flaw in the Housing Production Department's approach to production, and that is the failure to recognize its own limitations in housing development. During the past few years the following housing production approaches were pursued:

- \* Section 8 New Construction through HUD
- \* Section 8 Acquisition with Substantial Rehabilitation through HUD





- \* Section 8 New Construction through the California Housing Finance Agency
- \* Low Rent Public Housing Turnkey Development
- \* Low Rent Public Housing Conventional Bid Development
- \* Housing Authority Sponsored Development By Non-traditional Methods
- \* Urban Homestead Program (Although not strictly speaking a production program, the assignment of Urban Homestead Development responsibilities to the Production Department without benefit of additional staff affected other development efforts).

In the beginning, the Housing Authority's production staff did not have a great deal of experience in development, particularly government sponsored housing development. This is not surprising, given that there was no public housing construction in the City from 1955 until passage of the 1973 referendum. This lack of experience was aggravated by the Production Department's attempts to become involved in too many different production alternatives which prevented the creation of staff expertise in any of the approaches. Each of the development alternatives outlined above has its own set of criteria and guidelines which are very time consuming and complex. This attempt at diversity without developing a production capability in any one area of production severely hampered the Authority's production efforts, and reflects a lack of direction from management and the inability of management to implement a realistic development policy.

Each of the production methods described above requires a heavy investment in planning to implement the projects. From the standpoint of numbers of staff and staff experience, the resources for the Authority to pursue all of these production methods was inadequate.

During our Audit, the Housing Production Department was in the process of being reorganized under the direction of a new manager. It was difficult, therefore, to get a clear perspective of the direction production would take. As noted above, the Department was being restructured to place greater emphasis on the utilization of contract architects for design preparation. This is an attempt to accelerate production by distributing design to contract architects, and differs substantially from the previous practice which relied on an internal design capability. This change should have a positive impact on production. Other organizational changes should also be made. In Appendix I we have set forth a suggested organization for the Housing Production Department that we believe will further





enhance the Authority's ability to produce housing. The suggested realignment continues to rely on existing staff in their present class titles. As attrition occurs, we recommend that the architectural classifications be replaced with classifications with greater administrative skills. The premises of the proposed organization are to:

- \* Provide the Authority with an experienced cadre of professionals skilled in the various production methodologies available through HUD, LRPH Conventional Bid, LRPH Turnkey, and Section 8 New Construction/Substantial Rehabilitation.
- \* Provide a basis of comparing the different methods of production to determine which method will produce the greatest number of quality units at the least cost.

To coincide with the creation of the new organizational structure, the Authority should establish measurable production goals for each of the sections and develop an implementation plan consistent with these goals. The goals should emphasize the number of units to be constructed and the projected completion date. The implementation plan should include a critical path analysis of each development methodology from the time HUD commits its resources through construction and identify the major decision points requiring simultaneous actions by the Authority or the City. Present procedures allow the process to merely evolve without planning, control or direction.

It is expected that by setting goals and objectives for housing production and planning the implementation program, using a critical path analysis of the implementation procedures, the Authority will:

- \* Better coordinate its implementation activities.
- \* Anticipate potential implementation delays in advance and initiate timely corrective action.
- \* Evaluate progress at the conclusion of the year to determine the basis for differences in actual production from the programmed production.

Finally, the Housing Authority should limit the production efforts to those projects supported by HUD through the LRPH and Section 8 programs. The development of projects not supported by traditional government subsidies should not be attempted until the Authority exhausts available HUD sponsored resources.

The basis for the Audit's position that the Authority cannot effectuate innovative approaches to housing that are not supported by traditional HUD subsidies is summarized in the following points:



- \* The Authority must first demonstrate an ability to utilize more effectively the conventional housing production resources. The construction experience necessary to do this relatively safe type of production should be gained prior to undertaking high risk production efforts.
- \* Because its production resources derive from the Federal Government, the City (Block Grant Funds), and Housing Authority bonds, the Authority does not possess venture capital in the true sense of the word.
- \* Failure of the Housing Authority to take advantage of the LRPH program reservations could jeopardize the City's Block Grant program since the program reservations are predicated on the Housing Assistance Plan prepared as part of the City's Block Grant Application.

(See Recommendation No. 12)

#### Development Funds

Issue: The production of Low Rent Public Housing (LRPH) is hampered by the inability of housing authorities to utilize funds committed by program reservation for housing production until an Annual Contributions Contract has been negotiated.

#### Discussion:

The implementation of a Low Rent Public Housing program is limited by the availability of development resources to the Authority. Development resources include funds to secure an architect, prepare soil analyses and environmental impact reports, secure zoning variances or conditional use permits, and purchase land. All of these activities are legitimate charges to the program reservation, but not until an Annual Contributions Contract (ACC) or preliminary loan has been received.

Until recently, a major obstacle to production was the inability of the Authority to secure sites for construction, because under the HUD guidelines monies for site acquisition were not available until an ACC had been executed. This required the Authority to attempt to negotiate long term purchase options while HUD conducted its site review which could take six months or more. Since the Housing Authority did not have funds of its own to purchase sites, acquisition in this manner was very difficult. The problem has been resolved by the City's





reservation of \$1.5 million in HCD Block Grant funds for the purpose of site acquisition.

This, however, does not resolve the problem of having insufficient funds to retain an architect, secure site analysis and complete other related development activities requiring the services of consultants. Funding is available from HUD through a preliminary loan application which is basically an advance from the program reservation amount. The application for preliminary loan funds is relatively simple but the processing time through the City and HUD can be extensive. One method of accelerating the development stage of LRPH production would be to allow the Housing Authority to utilize the Block Grant monies for development activities following HUD notification of program reservation. The idle Block Grant monies would be used until the preliminary loan funds are received. The funds would be provided in the same way that land acquisition monies are now made available and be reimbursed to the fund upon receipt of the preliminary loan funds from HUD. (See Recommendation No. 13)

#### HUD Processing Delays

Issue: The U.S. Department of Housing and Urban Development (HUD) has not fully met its responsibilities in administering the Section 8 and LRPH programs, causing delays which prevented expeditious implementation of the programs and contributed in part to the Authority's housing production problems.

#### Discussion:

The Audit has found that at least part of the inability of the Housing Authority to achieve expected levels of housing production can be attributed to the U.S. Department of Housing and Urban Development's inability to process applications and review project submissions, including schematic design and land purchase proposals, in an expeditious and timely manner.

A review of the HUD Handbooks governing the administration of the Section 8 Substantial Rehabilitation/New Construction and Low Rent Public Housing Programs indicates that HUD is heavily involved in the process from the point the availability of funding is announced through the commencement of construction. During the construction period HUD remains involved, but not at the same level as in the preconstruction phase. No one disputes the need for HUD to be involved. However, there is an attendant responsibility to insure that the participating public housing authorities receive full cooperation and expeditious processing of their proposals.



The program reservation for housing unit construction under the LRPH program is predicated on construction being initiated 16-18 months after issuance of the Notice of Housing Assistance Availability. This suggests that the review process is expected to be time consuming. But none of the Housing Authority's 1,053 units is currently under construction and some have been in program reservation since 1977.

Not all of the delays are the responsibility of the Housing Authority; HUD must share some of the responsibility. A review of the history of the Housing Authority's LRPH program reservations indicates that HUD takes what appears to be an inordinately long period of time to approve program reservations; the basis for this observation is that a program reservation is automatic as housing authorities are the only agencies entitled to utilize the LRPH program. Yet HUD has taken up to three months before notifying the Authority of its approval.

In attempting to implement its first program reservation, the Authority spent ten months preparing a developer packet and issuing two separate invitations to developers for turnkey proposals. Because no bids were received, the Housing Authority had to negotiate with HUD to convert the project to a conventional bid program. This entailed additional delays since HUD policies do not provide for automatic conversion from one construction type to another. Upon conversion to conventional bid method, it became the Housing Authority's responsibility to obtain "land purchase options" for construction sites. Because HUD must approve all sites before it will provide funds for land acquisition, sellers were forced to remove their property from the market, and execute a land purchase option without knowing whether HUD would approve the acquisition. On this particular program reservation it was four months before HUD provided the Authority with tentative site approvals. By that time either the option period had expired or the appraisal was below the option amount, and new negotiations had to be initiated with the owner.

Finally, the Housing Authority initiated a new Request for Proposal for Turnkey Construction on April 29, 1980. The proposal period closed on May 31, 1980, and the Authority submitted its recommendations to HUD on June 16, 1980. It was then HUD's responsibility to provide final site approval so that final design activities could be completed. During our review we found that HUD had not provided final site approval as of December, 1980. This not only delays construction but can create real problems for developers. If the sites are owned by the developer, it unnecessarily ties up their resources on projects that should be proceeding. If the developer has options on the sites that have been placed in escrow, failure to provide approval prior to close of escrow requires that the developer either gamble that the site will be accepted by HUD and pay additional costs to continue the option, or give up the site. These delays by HUD increase the potential for losing the site and the resultant housing production. The unnerving aspect of





this scenario is that HUD took more than four times as long to review the proposals as the developers were given to prepare them. This kind of track record can do nothing but discourage developers from participating in Housing Authority/HUD sponsored development programs in Los Angeles.

The Westside Manor project is another example of the lengthy processing time associated with HUD sponsored projects. In this project the Authority was acquiring from HUD a property to be rehabilitated for elderly housing. Negotiations began in July, 1976, and construction began in October, 1979. This represents a three year negotiation period as compared to a construction period of a little over a year. To put this in perspective, it took seven months from the time the Housing Authority notified HUD it was prepared to purchase the property until the policy of title insurance was issued by HUD.

The above examples indicate only that it is time consuming to implement a HUD sponsored housing project. Housing Authority representatives imply that many of their problems originate with HUD and its failure to process matters expeditiously, and the rigid requirements dictating the kind of housing to be produced. The goals announced for the Housing Authority in the Housing Production Report submitted to the Grants, Housing and Community Development Committee by the Housing Task Force on March 21, 1980, were predicated on the Authority's ability to make progress on the turnkey development of LRPH family units. HUD's delays in providing site approval has jeopardized attainment of these goals. Recently the Mayor's Office, HUD, the Housing Authority, the Community Redevelopment Agency, and the Community Development Department have been meeting to attempt to resolve mutual problems and expedite the implementation of programs to the benefit of all concerned.

The ability of the Housing Authority to elicit improved responses from HUD in its processing of the Authority's projects is somewhat limited. Our investigations suggest that the Authority staff did not take a forceful role in its dealings with HUD. Although the records at the Housing Production Department are inconclusive, it does not appear that staff maintained regular and consistent liaison with HUD. During the various periods of delay, there were only limited references to Authority attempts to expedite HUD processing. When dealing with a large agency like HUD, which has previously threatened the Authority with loss of its program reservations if progress is not made, it is essential that a written record of every HUD contact be maintained. Without such a record, the Authority is defenseless against accusations of failed production. Because whatever goals HACLA establishes for project implementation are HACLA's and not HUD's, it is the Authority's interest to seek from HUD an expected approval date, to assure HUD staff maintains projected schedules, and to report to responsible HUD management if there are delays in processing.





Finally, the Housing Authority should have maintained better project control over the implementation of its development programs. Someone must be responsible for constantly monitoring the progress of the project, including the maintenance of constant liaison with HUD to attempt to expedite the processing of projects by HUD. The organizational structure suggested in Appendix I of this report should improve interaction with HUD by establishing individual project managers responsible for maintaining a continuous liaison with HUD including the follow-up of any delay. (See Recommendation No. 14)

### Eminent Domain

Issue: Although there is a need for suitable sites for the construction of low income housing, the Housing Authority has not utilized its ability to initiate eminent domain proceedings to acquire suitable properties.

#### Discussion:

Housing authorities under the Health and Safety Code have the power to initiate eminent domain proceedings to acquire properties for the construction of low income housing. Since 1973, the Authority has had the required referendum authority to construct low income units within the City. During that time, the acquisition of suitable sites for construction has been a significant problem. Part of the problem was resolved when Block Grant funds were made available for the purchase of suitable properties, but another problem continues and that is the absence of suitable sites for the construction of such units.

It has been the policy of the Housing Authority management not to invoke its eminent domain power to acquire sites. The reason for this is that eminent domain can: 1) be very time consuming; 2) require that displacees be relocated by the Authority; and 3) result in considerable negative reaction on behalf of the public to the Housing Authority efforts, and to the concept of low income housing construction.

It is the opinion of this Office that the failure to judiciously use the eminent domain power severely restricts the ability of the Authority to acquire suitable properties. This is especially significant since larger sites are now needed to take advantage of the recent referendum that allows the construction of 30 units per site for low income family housing. It is important that every avenue be pursued if low income housing construction is to proceed in an orderly manner. Given the lack of suitable vacant sites within the City and the fact that it is difficult to secure these sites under the present policies, it is unreasonable for the Authority to continue to neglect utilizing

TABLE 6

Urban Homestead Program  
Project Cost Summary

	Phase 1 <u>17 Units</u>	Phase 2 <u>5 Units</u>	<u>Total</u>
Section 312 Loans	\$307,000	\$ 76,850	\$383,850
CDBG Loans	<u>85,000</u>	<u>25,000</u>	<u>110,000</u>
Subtotal	\$392,000	\$101,850	\$493,850
Housing Authority Administrative Costs*	<u>428,834</u>	<u>65,834</u>	<u>494,668</u>
TOTAL	<u>\$820,834</u>	<u>\$167,684</u>	<u>\$988,518</u>
Total Average Cost Per Unit	<u>\$ 48,284</u>	<u>\$ 33,537</u>	<u>\$ 44,933</u>
Average Homesteader Loan	<u>\$ 23,059</u>	<u>\$ 20,370</u>	<u>\$ 22,448</u>

\*Housing Authority Administrative Costs include expenditures for security, selection of homesteader and overhead. Since the funds available for administrative expenses were exhausted before the completion of the program, total administrative costs are underrepresented.

its eminent domain powers. The Community Redevelopment Agency consistently utilizes this power when it is essential to successful implementation of its projects.

The Audit is not suggesting that the power of eminent domain be used other than selectively, but rather that the Authority set up a policy to guide its decisions to invoke the proceedings. Perhaps to avoid some of the political repercussions of such a decision, it would be appropriate for a policy statement to be drafted by the Authority for submission to the Council for its advice and input. Some factors that might be considered in the development of such a policy include:

- \* That eminent domain proceedings be initiated, when possible, in areas of the City which do not now have low income housing projects.
- \* That eminent domain would be initiated only on properties where the number of households to be relocated would be less than the number of units to be constructed in the proposed development program.
- \* That the Board of Housing Authority Commissioners would conduct a public hearing in the community in which eminent domain actions are to be initiated and invite participation from the community in its deliberations.
- \* Other safeguards deemed appropriate.

Such a policy, if clearly stated, should reduce some of the objections to eminent domain. In any event, it is inconsistent with a housing production program for the Housing Authority to continue to neglect a tool that could substantially influence the development of low cost housing. (See Recommendation No. 15)

#### Urban Homestead Program

On March 16, 1978, the City Council approved an agreement between the City and the Housing Authority for implementation of the Urban Homestead Program. The Program was to be conducted in the Harvard Park-Avalon target neighborhood and provided for the transfer of foreclosed homes from the HUD property inventory to homesteaders of low and moderate income. The homesteader to participate was required to repair, occupy, and maintain the property. To finance the rehabilitation, Block Grant and Section 312 loans were available to the homesteader and became liens against the property.

When the first Urban Homestead Program is closed out, a total of 22 units will have been rehabilitated and delivered to





homesteaders. Rehabilitation and delivery was completed in two phases of 17 and 5 units respectively. Based on total loan commitments, the average homesteader loan during Phase 1 was \$23,059 and \$20,370 for Phase 2. However, the total average per unit cost for rehabilitating the units is considerably higher when the administrative costs are included. With the inclusion of administrative costs, the per unit cost of rehabilitation increases to \$48,754 and \$33,536 for Phases 1 and 2 (See Table 6). The difference between the two phases is due entirely to the higher cost of security during Phase 1.

The Urban Homestead Program at the time of the Audit had been subjected to considerable scrutiny. As a Block Grant supported program, it was reviewed by the U.S. Department of Housing and Urban Development when the City's Block Grant was audited. The HUD Audit was very critical of the administration of the Urban Homestead Program and questioned more than \$200,000 in program expenditures, primarily those for security. At the time of the Management Audit, the Housing Authority and the Community Development Department were responding to the HUD findings and had implemented many of the suggestions recommended by HUD; attempts were continuing to resolve the issue of the questioned costs.

In addition to responding to the HUD Audit findings, the Authority was working with the Chief Legislative Analyst who was engaged in a program results audit of the Urban Homestead Program for the City Council. The existence of the HUD audit and the CLA investigation made an in-depth review by this Office of the Urban Homestead Program unnecessary. Such a review would have been a duplication of the other efforts, and may have been counterproductive to the Authority's attempts to resolve the issues raised by HUD.

The impact of the Urban Homestead Program activities on the remaining Housing Authority projects did, however, make it necessary to review certain elements of the administration of this project; this review raised certain issues which should be addressed by the Housing Authority and the City in implementing future Urban Homestead projects.

Based on this review, the Audit team suggests that the Housing Authority designate a permanent project manager to oversee the implementation of this project during the second program year. Many of the issues raised by the HUD Audit of the first Urban Homestead Program can be traced to the lack of adequate management control over the project. The absence of a project manager to direct and control the implementation of the program meant that each of the entities responsible for the different elements of the program acted somewhat autonomously. Without a means of providing overall coordination, it could be expected that the Authority would experience difficulties in implementing the program.



The experience of the Housing Authority with the Urban Homestead Program raises an even more fundamental question regarding the desirability of the Authority's future participation in the program. Involvement in the Urban Homestead Program requires a major effort by the Housing Authority, and this effort detracts from the Authority's primary responsibility to manage its inventory of public housing units.

### Urban Homestead Program Management

Issue: Urban Homestead Program management has suffered as a result of there being no individual assigned overall responsibility for managing the Program.

#### Discussion:

At the outset of the Urban Homestead Program the then Deputy Executive Director was responsible for overseeing the implementation of the project. The staff resources available included those in the Finance Department, the New Construction Department, the staff assembled to qualify and select homesteaders, and ultimately the Central Shops personnel. Our review suggests that very little coordination and direction was exercised in integrating the activities of these various entities toward the completion of the Program. Each tended to act independently after the Deputy Executive Director was appointed as the new Executive Director, and the responsibility for overseeing the Urban Homestead Program was allowed to lapse.

Lacking overall coordination of the Program, decisions were made which resulted in some unfortunate repercussions following a HUD Audit of the City's Community Development Block Grant. HUD was very concerned about the failure of the Authority to follow its normal contracting procedures, and the inadequacy of the controls for selecting contractors and coordinating, inspecting and approving the rehabilitation efforts.

The judgement of the Housing Authority in failing to follow the usual contractor selection procedures is very questionable. The reason for the change in procedure was to provide a greater opportunity to compete to local, small scale contractors. The objective is not disputed, but the Housing Authority should have requested HUD approval to deviate from the usual selection procedure before implementing the change.

Housing Authority staff indicated that the delays in completing the rehabilitation were in part attributable to the inability of the contractors to perform expeditiously. In a program where the ultimate burden/cost of any delay in production was borne by the homesteader, it was imperative that the homes be made ready for occupancy as quickly as possible.





With the Housing Authority assuming responsibility for the bulk of the rehabilitation activities and the change in 312 Loan procedures by HUD, many of the difficulties experienced in the first Urban Homestead Program should be minimized. However, the lack of coordination exhibited by the Housing Authority's administration of the first Program will continue unless a Project Manager to oversee the implementation if the Program is designated. If this is done, the following advantages to the Urban Homestead Program are anticipated:

- \* Better control of and coordination between the various Housing Authority entities responsible for different phases of the Program.
- \* Improved productivity in the completion of the rehabilitation of the units.
- \* Continuity of record keeping with the maintenance of a central file.
- \* The Project Manager would create a single point of liaison between the HACLA, the Community Development Department, and HUD. This would improve efforts to monitor the Program by increasing communication between the Housing Authority and monitoring agencies. (See Recommendation No. 16)

#### Housing Authority Involvement in the Urban Homestead Program

##### Issue:

The involvement of the Housing Authority in the Urban Homestead Program is counterproductive to the primary responsibilities of the Authority.

##### Discussion:

The Housing Authority is responsible for providing safe, sanitary and decent residential housing for low-income families and individuals. The Authority owns, manages, or administers rental housing units at rates affordable to low income householders. Its involvement in the Urban Homestead Program is only to serve as a vehicle for the transfer and rehabilitation of houses from the HUD inventory to homesteaders, and although the homes are made available to tenants from the Authority's housing projects, the units do not represent a resource continuously available to the Authority for use in its regular housing assistance programs.





The usual practice of the Authority is to attempt to increase its inventory of rental units so that they can be made available to low income households. The implementation of the Urban Homestead Program has been and is being completed with existing Housing Authority staff. The diversion of Housing Authority staff to support a program that produces so few units (22 to date), and nothing in the way of providing an ongoing resource to the Authority, seems to be counterproductive to the primary responsibilities of the Authority.

This drain of Authority resources will be even greater under the new Urban Homestead Program when Authority staff will perform much of the rehabilitation work. Such a diversion of staff resources can only exacerbate the existing need for maintenance and rehabilitation efforts in the housing projects. Administrative responsibility for the Program should be transferred from the Housing Authority to the City's Department of Community Development which administers other programs of a related nature. (See Recommendation No. 17)



### III. SECURITY





## Fear in the Conventional Projects

Issue: The quality of life for tenants in several conventional housing projects appears to fail to meet minimum conditions of safety.

### Discussion:

This Office claims no particular expertise either in the field of public housing or in urban sociology. The Audit Team, however, visited a number of the conventional projects, observed conditions, interviewed officials and tenants, asked questions, received answers and opinions, and formed conclusions. Admittedly, this approach was subjective in nature and predicated largely on relative conditions in City housing projects.

It is the opinion of this Office that some of the conventional projects are futile and unsafe places in which to live. We appreciate, of course, that funds for amenities are in short supply, both on the tenant side and on the landlord side. We appreciate also that public housing projects cannot be directly compared with private housing. However, it is our conclusion that the quality of life, as observed by the Audit Team, is clearly deficient in some of the projects.

In our contacts with officials and tenants, the overriding concern of those contacted was inadequate security. It was the first problem discussed and sometimes the discussion never moved beyond that topic because of the level of concern expressed. Fear is a real and present factor in the lives of many tenants. Some tenants expressed the feeling of being a prisoner in their own homes because of the fear of violence if they left their apartments. Tenants at certain facilities do not use project playgrounds because of fear of attack.

The Federal legislation on housing speaks of the necessity of all persons having access to "decent, safe and sanitary dwellings". Although the exact meanings of those qualifiers may be argued, it seems beyond argument that some of the larger projects cannot be described as "safe". It is difficult to obtain valid data upon which to compare the relative incidence of violence; therefore, we cannot prove that the projects are less safe than the surrounding neighborhoods. However, that in no way lessens the concern; some of the projects are generally acknowledged to be unsafe, regardless of the conditions in the surrounding areas.

There appears to be a correlation between the size of the project and the incidence of violence, that is, the larger the project, the more violent occurrences. Thus, Rancho San Pedro and Estrada Courts, both small projects, were described as fairly nice places to live, while Jordan Downs and Nickerson Gardens, both large projects were described as having major problems.



A special review must be made of the security and related problems at the larger projects. A consultant should be hired to review not only security needs but also major new approaches to improving the environment. Downsizing the projects and sale of all or part of the units to tenants or others under the Urban Homestead Program or other legislation are among the ideas that should be explored. (See Recommendation No. 18.)

### Housing Patrol Force

Issue: The Housing Authority Patrol Unit appears to be operating with an inadequate number of personnel to accomplish the required policing activities.

#### Discussion:

The Housing Authority Patrol Unit is responsible for policing 21 conventional housing developments with a total of 8,213 dwelling units and a population of approximately 34,000 low and moderate income families, senior citizens, disabled and handicapped persons. Housing developments are situated in widely divergent areas of the City, from San Pedro to the San Fernando Valley. The primary responsibility of the Patrol Unit is to provide a safe environment for conventional housing residents. Patrol Unit personnel also provide some miscellaneous services to residents of the leased housing programs.

Crime in and around the conventional housing projects is serious and on the increase. Crimes that take place on a frequent basis include malicious mischief, burglary, disturbances, assaults, robberies, and possession and use of narcotics. During calendar year 1980, 984 Part I offenses (as defined by the Federal Bureau of Investigation: criminal homicide, forcible rape, robbery, aggravated assault, burglary, theft and motor vehicle theft) were recorded by the Los Angeles Police Department in and immediately adjacent to the Nickerson Gardens Project. This compares with a figure of 633 for calendar year 1979. Two to three homicides are currently being committed in the conventional housing projects each month (21 projects with total population of 34,000). The rate of crime increases substantially around the first and fifteenth of each month which are the dates that various public assistance checks are received. Recipients of these checks are subject to various types of criminal activity ranging from simple assault to robbery. Residents at many of the projects are in constant fear for their personal safety and that of their families. In 1979, the Mar Vista Gardens Tenants Association filed a lawsuit in Superior Court claiming the Housing Authority was not maintaining Mar Vista Gardens in a decent and safe condition, and that there was no detailed security plan for the protection of the tenants.





Litigation is still pending and the Authority is attempting to improve security at the project through various means.

The Patrol Unit has a budgeted strength of 27 Patrol Officers. At the outset of the Audit a total of nine of these positions were unavailable for duty (seven were vacant and two employees were off work on Workers' Compensation). This, coupled with sicknesses, vacations, and the fact that the Patrol Unit operates on the 4/10 plan, results in the fielding of only one or two 2-person patrol cars during the day and only two to three 2-person patrol cars at night for the entire system of housing facilities City-wide. Staffing limitations dictate that the Patrol Units basically respond to radio calls for assistance, although some foot patrolling is accomplished. The Patrol Unit has no fixed post assignments.

The Housing Authority is currently recruiting for Security Officer II positions and hopes to fill several of these positions in lieu of the vacant Patrol Officer positions. The primary difference between Patrol Officer and Security Officer is the former have peace officer status and can arrest for probable cause. If the Authority is successful in filling the Security Officer positions, the relief from present security concerns will be partial at best. Even with all of its budgeted positions filled, the Authority would still not have enough security positions to provide an appropriate level of patrol presence at the conventional projects.

In connection with our Audit of the Patrol Unit, we contacted several other public housing authorities both within and outside the State of California. Of the housing authorities contacted, we found that the security force with the lowest number of Patrol Officers in relation to conventional housing units was the Los Angeles City Housing Authority with a ratio of 1:304. This compares to 1:135 for the Los Angeles County Housing Authority and 1:113 for the San Francisco Housing Authority. The St. Louis Housing Authority has a ratio of 1:125. In order for the Los Angeles City Housing Authority to attain a 1:125 ratio of Patrol Officers to conventional housing units, some 39 additional positions would be needed.

In addition to the problems associated with an inadequate number of security positions, the overall philosophy of security operations was brought into issue during the Audit. Current management of the Housing Authority encourages a low enforcement profile in policing the projects, emphasizing a friendly service orientation. This approach is exemplified by the uniform worn by the officers (tan); the vehicles used for patrol (white--no emergency lights or sirens) and in the fact that officers are not authorized to write tickets. The following statement is drawn from the Manual of Policies and Procedures and Operations for Patrol Officers approved by the Board of Commissioners on December 27, 1979:





## THE ROLE AND PURPOSE OF HACLA PATROL :

Patrol officers, like other employees of the Housing Authority, should provide needed services to residents and encourage persons to come to them for assistance and advice when needed. By giving assistance, advice, and sympathy to those residents in distress, Patrol Officers help individuals achieve a meaningful and directed life as well as developing friendship and cooperation for the Patrol among the residents.

By itself, as well as in cooperation with Development Managers and their staff, the Los Angeles Police Department, Community Workers, the Patrol works to promote a more wholesome environment and activities.

The Los Angeles Police Department has the basic responsibility for the prevention of crime, disorder and vandalism throughout the City of Los Angeles, including our projects. In accordance with our Cooperation Agreement with the City of Los Angeles, the same level of services provided other Los Angeles residents must be provided to Housing Authority residents.

During the course of our investigation we reviewed the operations of the Los Angeles County Housing Authority patrol force. This force seems to take a much more active role in policing the areas under its control than does the HACLA patrol unit. County Housing Authority Officers issue citations for such things as unlawful parking, moving violations, driving under the influence, general traffic violations, etc. They also issue disturbance reports which are placed in the file of the particular tenant for possible later action. (See Recommendation Nos. 19 and 20)

### Parking Control

Issue: The inability of the Housing Authority to monitor automobiles within the housing projects creates inconvenience for residents and an unsightly appearance for the projects.

#### Discussion:

Most of the conventional housing projects have inadequate parking facilities. The general lack of parking is compounded when nonresidents park their automobiles on Housing Authority property. In many of the projects automobiles are parked on project lawns and in other unauthorized areas. Residents frequently have no alternative but to park outside of



the projects, with the result that they are inconvenienced and their cars may be subject to increased risks from vandals.

Many of the project parking lots contained automobiles belonging to residents and which were in various stages of repair, and others which appeared to have been stolen and brought onto project property for dismantling.

The appearance of many of the projects is poor. The illegal parking of automobiles in unauthorized areas and the repair and/or dismantling of automobiles in the projects adds to the general unsightly appearance of the grounds. Enforcement of lease provisions prohibiting major repairs of vehicles on project property, and the initiation of a parking permit system is now in operation at the San Fernando Gardens development in Pacoima. The potential for expansion of this system to the other housing developments should be seriously considered by Authority management. A system such as the one at San Fernando Gardens would assist the Housing Authority Patrol Unit and the Los Angeles Police Department in identifying nonresident vehicles. (See Recommendation No. 21)





#### IV. FINANCIAL MANAGEMENT



## Financial Management Continuity

Issue: The high turnover and vacancies experienced in the Finance Officer and Assistant Finance Officer positions during the past year have seriously impacted the Authority's accounting operations.

### Discussion

The Finance officer position became vacant in February, 1980. The then incumbent Assistant Finance Officer was assigned as Acting Finance Officer and given a permanent appointment in June, 1980; he subsequently submitted his resignation in October, 1980. Since that time the position has been filled by three individuals, including the current incumbent. The Assistant Finance Officer position was held vacant for over a year, from February, 1980 through May, 1981. Both positions were filled most recently during May, 1981.

The vacancies occurred during a period of expansion, particularly in the amount, sources, and complexity of financing new project development, and in the volume of Section 8 housing assistance payments. During this period the Authority's Purchasing Agent position was also vacant and the Acting Finance Officer handled some of that workload.

Although some of the work was picked up by other accounting personnel, many of the routine duties fell behind. One of the more important functions that had been handled by the Assistant Finance Officer was the establishment and maintenance of accounting controls and costs over new project development. This effort deteriorated due to the vacancy of the position. The latter subject is discussed more fully in a separate section of this report. The other existing accounting systems were reasonably well established and continued to function in spite of the absence of management. However, these positions must be consistently filled with competent personnel to provide the necessary leadership for employees engaged in the fiscal operation and accounting systems of the Authority. (See Recommendation No. 22)



## HUD Performance Funding System

Issue: The application of HUD's Performance Funding System (PFS), used since 1976 to calculate the annual operating subsidy provided by HUD for operation of HACLA owned low cost rental housing under Contract SF 345, has resulted in an uneven flow of funds which interrupts management efforts aimed at stabilizing operations, and is likely to cause further financial and management difficulties in the next few years if corrective action is not taken.

### Discussion:

The Department of Housing and Urban Development's Performance Funding System was designed to provide an amount of operating subsidy which would be needed for well-managed PHA-owned low rent public housing. It does not apply to other subsidies which the agency receives annually from HUD, such as for PHA owned rental housing debt service and modernization programs, plus Section 23, and Section 8 programs.

The PFS is detailed and complex, and its application has been of concern to the Housing Authority and other PHA's for some time. Possible changes to the PFS have been the subject of discussion at the most recent National Association of Housing and Redevelopment Officials (NAHRO) Legislative Conference.

We have made a detailed analysis of that portion of the PFS that has impacted on the flow of funds to the Authority over the past five years. That analysis and the mechanics of the PFS is described and illustrated in Appendix II of this report. We have concluded that the application of the PFS over the past five years has caused an uneven flow of funds to the Authority.

As demonstrated in Appendix II, the application of the PFS has had the effect of overfunding the operating subsidy by \$879,203 and \$974,969 in 1976 and 1977, respectively. The HACLA apparently responded to these circumstances by increasing its total employment and expenditures. Personnel assigned to conventional housing functions (SF 345) were increased from 370 in January, 1975, to 388 in January, 1978.

In 1978 the application of the PFS had the effect of cutting back the operating subsidy below the 1977 level by over \$1,000,000. Personnel assigned to SF 345 were reduced from 388 in January, 1978, to 302 in January, 1981. This has been a





traumatic experience for the Authority and its employees, and, we believe, directly caused by the application of the PFS.

If the Performance Funding System is applied in the future as it has been in the past, with the HUD Wages Inflation Factor significantly below the actual cost increases experienced by the Authority for the same level of operations, it appears inevitable that the SF 345 conventional housing program will be in financial difficulty in a very few years. (See Recommendation No. 23 and Appendix II)

### Budget and Financial Status Reporting

Issue: The lack of a comprehensive and concisely presented annual budget and financial status report has contributed to the difficulty the Finance Department has experienced in communicating financial information to Authority management.

#### Discussion:

In the past several years the Housing Authority has expanded its sources of funding to the point that it has now become a financially complex organization. In order to keep management apprised of the financial status of the organization, efforts should be undertaken to improve the budget and financial status report presentation. Some understanding of the rather unique mechanisms used to finance the various types of projects is essential to attain an accurate perspective. As this is accomplished it should be apparent that certain policy decisions must still be made as to how to treat some of the newer types of financing in the accounting records and in the reports.

The Authority does not prepare an annual comprehensive budget for its entire operation. Individual budgets are prepared annually using HUD forms for:

- \*SF 345 - conventional housing program
- \*SF 259 - leased housing program
- \*SF 318 - home ownership program
- \*SF 500 - Section 8 program

The budgets are prepared on HUD forms which are extremely detailed and lengthy. Even with considerable study, they are difficult to comprehend. The budget is not supported with an organization chart and staffing information to facilitate comprehension. The forms were designed by HUD and were intended



as technical documents to be used for requesting funding. They are not suited for use by management of local authorities as their only budgetary document.

Individual budgets are also prepared for the various Block Grant funds and some specific projects that are in various phases of development. However, a total comprehensive budget document in a simplified presentation of the entire Authority's operation, which includes new project development, the several corporations and other accounting entities used to finance the more recent projects, is not prepared.

A comprehensive financial status report for the entire Authority is not prepared. Annual financial reports, like the budgets, are prepared using HUD forms for the four major HUD programs. These forms are extremely detailed and lengthy and contain much superfluous information which make them difficult to readily understand. The recent report of the certified public accountants was likewise limited to the four major HUD programs. Separate reports for the housing corporations are also prepared by certified public accountants. Separate periodic reports are prepared for Block Grant and division operating budget status reports.

The development of a comprehensive budget document and financial status report will require a new level of effort and talent in the Finance Department, and will undoubtedly be an evolutionary process that will take time to develop. In the interest of saving time and bringing the necessary knowledge and expertise to bear upon this identified need, Authority management may wish to consider the employment of a qualified consultant. If this course of action is selected, the staff of the City Administrative Officer is available to assist in the preparation of a Request for Proposal for consultant services. (See Recommendation No. 24)

### Project Control

Issue: A satisfactory project control system has not been established to account for and to control costs being incurred for survey and planning, property acquisition, and construction of new projects.

#### Discussion:

In the past few years considerable amounts of HUD funds and some block grant funds have been made available for survey and planning, property acquisition and new construction of projects of various sizes ranging from 5 units to 100 units.





In 1978, the Finance Officer issued a memorandum to all Authority managers which would have transferred to the Finance Division responsibility for the assignment and distribution of work orders and issuance of work order numbers. All requests for work orders were to be made in writing, stating the description and purpose of the work order, who would do the work, the dollar estimate, when the job would begin and end, and who would be responsible for the work. This system was never implemented.

At the time of our Audit, work order numbers for new project development and construction were being assigned in response to phone calls to the Finance Officer's secretary with only minimal information being received over the phone about the project. As a result, the accounting involvement is at the end of the process, and in many instances the staff does not know how the projects are to be accounted for or financed. In some cases, there is confusion as to the identity of the project. This lack of a satisfactory project control system makes it difficult for the staff to maintain appropriate information on the status of new development work in process, or to prepare current and useful reports to management. The result is that management does not have available a comprehensive picture of its development responsibilities.

These conditions were undoubtedly aggravated by the vacancies and turnover of the Finance Officer and Assistant Finance Officer positions in the past year. (See Recommendation No. 25)

#### Housing Assistance Payments

Issue: The order of magnitude of housing assistance payments is large, both in terms of total dollar amount and the total number of checks issued. The nature of this activity and its constant susceptibility to error, fraud, and abuse demands that there be a continuous review of procedures to assure that appropriate internal controls are established and functioning properly.

#### Discussion:

Although we found no evidence of fraud, errors or abuse, our limited review of the procedures for processing housing assistance payments leads us to the conclusion that this possibility is constantly present. The nature of this activity (which is somewhat different from the typical disbursement of payroll and accounts payable checks) makes it particularly susceptible. In 1980, the dollar amount of housing assistance payments under the Section 8 and Section 23 programs exceeded \$30 million and the number of checks issued exceeded 60,000.



The procedure typically starts in one of the HACLA five area offices, proceeds through the Management Control Center, to the Finance Department to an outside contract data service bureau, back to the Finance Department, and then to an outside contract mailing house from which checks are mailed to owners and landlords. It is not possible for personnel in the Finance Department, based on documents they receive as related to the total procedure, to have a reasonable degree of assurance that all checks issued are authorized and for the correct amount. Establishment of an internal audit function within the Authority's management structure would provide an appropriate level of assurance that financial activities with a high degree of potential vulnerability are being carried out with full integrity. (See Recommendation No. 26)

### Accounts Payable and Purchasing

Issue: In recent years the accounts payable and purchasing procedures have deteriorated. Current practices are cumbersome and lack adequate internal controls.

Discussion:

Several factors have contributed to the current conditions: the vacancy of the Purchasing Agent position for the past two years, the vacancy of the Finance Officer position and then the Assistant Finance Officer position over the past year, and the increase in the Agency's operations during that period of time.

Many years ago a system of placing telephone orders up to \$200 was established. Under that system any of the project managers may place a telephone order and submit to the vendor a purchase order number which consists of the three digit project number plus 99. Thus, if Project 420 placed a telephone order, the vendor would be given a purchase order number of 42099. An actual purchase order is not issued. The vendor is requested to submit the invoice to the project location where it is approved and sent to the accounts payable clerk in the Authority's central office. Items over \$200 were ordered by regular purchase order, or by use of an existing Blanket Purchase Order.

The current status of purchasing and accounts payable practices may be described briefly as follows:

- \* Many of the existing Blanket Purchase Orders have expired. In some cases agreed upon prices are incorporated therein; in some cases there are no agreed upon prices; in other cases the originally agreed upon prices have become obsolete and have





not been updated. This puts the accounts payable clerk in the position of approving for payment many invoices without an accompanying Purchase Order or with an accompanying Blanket Purchase Order which does not incorporate current prices.

- \* Currently an estimated 40% to 50% of the purchases are telephone orders under \$200.

Many of the one-time regular Purchase Orders over \$200 are actually ordered by the project manager, who then notifies Purchasing, which then issues the Purchase Order.

If the Blanket Purchase Orders were up to date with stated prices, and if additional Blanket Purchase Orders were issued for appropriate items, a very large percentage (perhaps 60% to 80%) of telephone orders and regular Purchase Orders could be eliminated. If this alone were done, the accounts payable processing procedure would be significantly improved, both in terms of expediting the processing and improving internal control.

It should be noted that the Blanket Purchase Order as used in the Authority is different from the one used in City practice. The City uses Blanket Purchase Orders only for emergency purchase up to \$25. The City uses an Annual Purchase Order to procure identical items for a period of three months or longer from a specific vendor at a stated price. The Authority's Blanket Purchase Order appears to cover both the foregoing uses.

There is also a problem regarding the disposition of the invoice. Instructions to the vendor may be confusing, because in some cases the invoice is sent to the project, and in some cases it is sent to the Authority's Central Office. In many cases a packing slip or a receiving report reaches the accounts payable clerk who has received no invoice for the material. In these cases, the accounts payable clerk must contact the project and try to locate the invoice, or call the vendor and ask for a duplicate invoice to be sent. In other cases the invoice reaches the accounts payable clerk's desk with no packing slip or receiving report. In these instances the accounts payable clerk sends the invoice to the project for approval and return. In both cases an element of good internal control is lost.

The classical way to handle this situation from the point of view of good internal control is to direct all vendors to send all invoices to the Authority office, and none to the projects. However, this change cannot be made without a revision to other procedures to compensate for the change.

There is a need for a total review of the purchasing and accounts payable paperwork procedures with the aim of instituting changes to maximize internal controls without disrupting flow of





material and supplies to project operations. This could be done by the Purchasing Agent, Assistant Finance Officer or the Internal Auditor. Otherwise, a qualified consultant might be employed or the assistance of the City Purchasing Agent and/or City Controller might be requested. To attempt to make any significant changes before the Annual Purchase Orders are issued and updated could be disruptive to the flow of materials and supplies. Also, such changes could require significant training and an indoctrination period for the many project managers who have become accustomed to the traditional way for many years.

The City is presently implementing on a City-wide basis a modern computer-assisted Materials Management System (MMS) to replace outdated and unresponsive purchasing, warehousing and distribution methods. Housing Authority management may wish to consider the possibility of inclusion in the MMS as part of an overall approach to improving purchasing operations and the interface with the accounts payable process. (See Recommendation No. 27)



V. OPERATIONS





### Residents' Participation in Project Management

Issue: Some of the conventional housing projects do not have active Resident Councils in operation. At other projects, the Resident Councils are poorly attended and ineffective.

#### Discussion:

Department of Housing and Urban Development regulations require that the residents of conventional housing projects shall have limited participation in the management of such projects. The rules specify that residents shall be consulted in the preparation of annual budgets, proposals for modernization funds, the Model Lease Agreement and other actions affecting tenants. Participation shall take place through a Resident Council at each housing project, and a Housing Authority Resident Advisory Committee (H.A.R.A.C.) composed of representatives from each housing project.

The Audit Team observed the operations of the H.A.R.A.C. and interviewed several of its members. The Committee is complimented on its apparent interest and the dedication of its members. The Committee appears to be concerned with real problems affecting the welfare of its constituents, and members appear to take their duties seriously and discharge them effectively.

The Resident Councils, however, do not appear to be very effective.

Each head of household and spouse (if eighteen years of age) within a conventional project is a member of that project's Resident Council. The project's elected representative to the H.A.R.A.C. presides over the Council and reports to it. The Audit Team was informed that in some projects the Resident Councils are inactive and do not meet; in other projects the level of interest is low and the Councils are poorly attended.

The potential value of the Resident Councils is obvious. An active Council can be effective in stimulating tenant interest in project maintenance and appearance, in organizing and sponsoring social services, and in arranging recreational opportunities. The Council can also, very importantly, be effective in improving security for tenants. Therefore, this Office urges Authority management to take appropriate action to strengthen the Resident Councils. (See Recommendation No. 28)



Maximization of Rental Income  
From Conventional Projects

Issue: The Authority has not taken all steps to maximize the rental income from conventional projects.

Discussion:

Rents received from the conventional projects are a large item in the Authority's annual operating budget. The Authority is free to use this income in operating authorized programs. Therefore, an increase in rents could be used to increase services to tenants, to increase staff, or in other productive ways.

Federal and State laws and HUD regulations place certain restrictions on the amount of rent which may be charged: Rents may not exceed 25 percent of the net family income, and income (for new tenants) may not exceed a specified amount depending on the number of persons in the family (the specified income is low enough to insure that all new tenants are low-income families). Twenty percent of all tenants must be from the very low income group. The rent for any dwelling unit may not be less than 5 percent of the gross income of the family occupying the unit.

Within these guidelines, the Authority is encouraged by HUD to achieve a broad range of tenant family income, and to establish rent ranges to be used in formulating waiting lists. The Authority's Manual, in fact, states that factors of priority and preference for admission of new tenants shall be applied within rent ranges; this Manual section, however, is dated September, 1974, and the Manual section defining the rent ranges is dated November, 1967. In Audit Team discussion of admission procedures with Project Managers, the amount of rent to be paid was never mentioned as an admission factor. However, several persons interviewed did mention the need to attract tenants with the capability of paying rent at the high end of the scale.

In its 1980 Comprehensive Management Review of the Housing Authority, HUD was critical of the Authority's failure to maximize its rental income. Only in early 1980 did the Authority rescind its policy of ceiling rents, a policy which held many rents below the level authorized by HUD regulations. After ceiling rents were abolished, rental income has increased substantially. The HUD report stated further that "it is urgent that the PHA establish and achieve a broad range of income in each housing project under management within the shortest period of time possible..."

The Authority is in agreement that rent ranges should be revised and used, and that rental income should be increased. However, no action had been taken toward that goal at the time of our Audit. (See Recommendation No. 29)





## Selection of Tenants for Conventional Projects

Issue: The selection of tenants does not appear to be governed consistently by the priorities and preferences set forth in the Manual of Policy and Procedure, but by varying standards developed by individual managers.

### Discussion:

There are many more applicants for apartments in the conventional projects than can be accommodated in a reasonable length of time. As of October 31, 1980, there were 9,812 applications on hand; a total of 130 units were vacated during the month of October. At that turnover rate, it would take 75 months to accommodate all present applicants. Fortunately, the actual maximum wait for an apartment seems to be about half that length of time, because many of the present applicants will remove themselves from consideration for various reasons and others will be determined to be ineligible. At any rate, the competition for housing is so severe that there should be clearly understood rules governing selection of tenants.

The Manual of Policy and Procedure sets forth eligibility requirements for admission to tenancy in the conventional projects. All of the requirements appear to be in accord with HUD guidelines, except for a requirement that the family head be a legal resident of the United States. That requirement has been proscribed by HUD and is no longer enforced although it remains in the Manual.

From discussion with Project Managers, it appears that all residents met the eligibility requirements at the time of their admission. There is no evidence that non-eligibles have been admitted to tenancy.

The Manual further establishes priorities for selection of tenants from among the eligible applicants. Briefly, the Manual provides that ranges of specified rents be established and creates five priority categories, which must be considered in order, and within each priority category eight items of preference which must also be considered in order. If followed closely, this system would allow a very precise ranking of applicants.

Overlying the above-described priority and preference system is the timeframe of the applications. Each application for admission is entered into an application register; separate registers are maintained for each bedroom size and applications are entered into the register in the order received.

In discussions of selection procedures with Project Managers, varying responses were given as to the selection priorities. Although the priorities listed in the Manual were often referred to, in no case did the order of priorities in use





agree with the order cited in the Manual. In some cases, priorities dictated in the Manual were specifically denied by Managers as being priorities actually in use.

The most common priority consideration in actual practice appears to be age of the application. If an application is the oldest on hand for a particular bedroom size, that application is usually the one considered first for a current vacancy.

Project Managers are sometimes accused by disgruntled applicants of selecting tenants out of turn. These instances are usually investigated by the Operations Officer from Housing Authority headquarters. The Audit Team is not aware of any case where a Project Manager was criticized for showing favoritism to an applicant, or conversely for discriminating against an applicant.

The Audit Team did not independently determine that the rules (even the rules of a local project office) were applied fairly and consistently to all applicants. To do so would have required the scrutiny of the applications of selected successful candidates and a comparison with all other applications on hand at the time each successful candidate was selected. By the same token, the Housing Authority cannot itself demonstrate that the rules were applied fairly and consistently without itself going through the same exercise. However, the experience of the Audit Team in interviewing Project Managers suggests that the rules were not applied consistently as between project offices.

The Operations Department needs to provide training for Project Managers to insure that all Managers are familiar with Manual provisions and interpret them consistently. Procedures need to be established which will reveal more readily the priority status of each application and more easily justify the selections made. (See Recommendation No. 30)

#### Number of Section 8 Units under Lease

Issue: The Authority has not fully attained the HUD goal of maintaining 95 percent of the authorized Section 8 units existing under lease.

#### Discussion:

Under contracts with HUD, the Authority has been authorized to lease 12,400 private dwelling units under the Section 8 Existing Program. HUD has established an objective of 95 percent occupancy under this Program. The Authority had not achieved this objective at the time of the Audit.



Under this Program, the Authority issues a Certificate of Family Participation to a tenant applicant, which certifies to a landlord that the applicant is eligible for a rental subsidy. If the applicant is not successful in locating a rental unit within a specified period, the Certificate is reclaimed and reissued to a new tenant applicant. It is the responsibility of the applicant to locate and lease a dwelling.

HUD has been critical of the Authority's record in leasing units and has threatened to reduce the number of units authorized. As a means of increasing production, the Authority in 1979 requested permission to over-allocate Certificates, that is, to issue more Certificates than there are units authorized. HUD agreed to this proposal but attached conditions which were objectionable to the Authority.

In the Comprehensive Management Review in 1980, HUD again criticized the Authority for failure to lease 95 percent of the units and for not over-allocating Certificates. The units under lease in January, 1980, were 84 percent of the units authorized.

By Spring, 1980, the Authority and HUD had reached agreement on over-allocation of Certificates, and, by May, the number of Certificates outstanding exceeded the total number of units authorized, and has continued in excess of the authorized units.

Since the first of 1980, the number of units leased has increased steadily. Therefore, the percentage of units under lease increased dramatically to 94 percent in the second week of December, only one point short of HUD's objective. An additional 93 units leased will be sufficient to fully meet HUD's goal.

The Authority should be commended for its accomplishments in increasing the number of units under lease. The requirement was achieved in a very difficult rental market where the vacancy rate is estimated to be 1.5 percent. Further, there is a very high turnover rate among Section 8 tenants; so the increase has been achieved over and above replacement of outgoing tenants. (See Recommendation No. 31)

#### Fifteen Percent Ordinance

Issue: Housing Authority efforts to increase the number of allocations of housing units which comply with the "Fifteen Percent Ordinance" requirements, have not resulted in the level of program achievement envisioned by the City Council.





## Discussion:

The Fifteen Percent Ordinance (No. 145,927) was passed by the City Council on April 30, 1974. Under this Ordinance, developers of housing constructed pursuant to a building permit or a final tract map submitted for approval are required to make every reasonable effort to develop at least 15 percent of the total number of units in the development at a cost which would allow them to be rented or sold as low or moderate income dwelling units at the fair market value. When the Authority determines that units cannot be developed at such cost, the developer is required to give the Housing Authority in writing the continuing right of first refusal to lease any of the units of the development at the fair market value; or to require that such units be leased at the fair market value only to low or moderate income households approved by the Authority up to a total of 15 percent of the total number of units in the development.

Subsequent to passage of the above mentioned Ordinance, the Housing Authority established a unit to process applications under the Fifteen Percent Ordinance. This unit has established a sound procedure for meeting the initial requirements of the Fifteen Percent Ordinance. A flow chart setting out these procedures is included as Appendix III.

To date the Housing Authority has received subsidy authority from HUD to lease 542 Section 8 "Recently Completed" units. A Recently Completed unit under the Section 8 Program is one which has been built within six years prior to occupancy. These allocations were received in units of 400 and 142, with the 142 unit allocation approved in November, 1980. According to the Housing Authority, another allocation totaling 143 Section 8 Recently Completed units has been requested from HUD.

Although Housing Authority personnel are making a reasonably good effort to lease units under the Fifteen Percent Ordinance (approximately 80-90 authorized units remain unleased), it is the view of this Office that even greater efforts should be made to obtain more units and to increase the marketing effort. While we understand that there are many problems associated with the matching of eligible tenants with apartment owners, we feel that many of these problems could be overcome with an accelerated marketing program on the part of the Authority. In this regard, the Authority should investigate the possibility of establishing a computerized system to assist in seeking out and matching up eligible owner/tenants. (See Recommendation No. 32)



## Complaint Handling Procedures

Issue: The procedures used for handling tenants' complaints vary from project to project. Complaints and the methods by which they are resolved are not properly documented.

### Discussion:

The Authority appears to have a good procedure for expeditiously handling complaints and inquiries received from elected officials and representatives of public bodies. There is also an adequate resident grievance policy which affords residents the right of appeal of management decisions. This policy, which appears to provide adequate due process, is spelled out in Chapter 202:12 of the Manual of Policy and Procedure. A grievance or complaint, as defined in the Manual, means any dispute which a resident may have with respect to Housing Authority action or failure to act in accordance with the individual resident's lease; or Housing Authority regulations which adversely affect the individual residents rights, duties, welfare or status.

Complaints received from residents against other tenants or Authority employees are handled in several ways. Normally, the resident will contact someone in the Project Office, most often the Tenant Relations Assistant or the Project Manager in order to voice their complaint. If the problem/complaint can be handled easily by the TRA or the Manager, no further action will be taken other than possibly a notation being made on the resident history card of the person(s) involved. If the matter is considered serious enough, the office staff at several of the projects contacted will attempt to get the complainant to fill out and sign a complaint form. Different projects appear to use different forms although it is our understanding that the information contained on these forms is similar. Some of the projects do not utilize a complaint form. Project staff indicated to Audit personnel that it is often difficult to get tenants to sign these forms since many residents fear retribution.

The next step in the informal complaint process is to convene a meeting, if possible, between the complainant and the person against whom the complaint has been made, and Authority personnel will attempt to resolve the problem. A permanent record of complaints, together with their resolution, is not maintained either at the project level or at Authority headquarters. A permanent record of all significant resident complaints should be helpful to Authority management in carrying out its planning function. (See Recommendation No. 33)





## Maintenance of Rental Facilities

Issue: The maintenance staff is inadequate to properly maintain the Authority's rental properties.

### Discussion:

As part of its efforts to reduce operating costs after having been designated by the Federal Department of Housing and Urban Development as "financially troubled", the Authority has made severe cuts in the staff of the central maintenance forces.

The central maintenance division has been responsible for all exterior painting, pest control, shrubbery and tree pruning, plant nursery operation, carpentry, automotive equipment maintenance, cement work, electrical work, lock keying and repair, window shade manufacture, lawn mower repair, plumbing repairs outside of residence units, and gardening at all conventional projects and Section 23 facilities.

In 1978, there were 78 craft and other supervisory and worker positions assigned to these duties. In the 1981 budget, there are 31 such positions. However, the responsibility for exterior painting and the related positions (after extensive reduction) have been transferred to the individual projects. Therefore, the net reduction in the central maintenance staff has been 38 positions, or a reduction of 49 percent.

The Housing Authority has traditionally maintained its facilities in good condition. Visual observations by Audit Team members rate the present condition of projects visited as adequate to good, except for exterior appearance at some projects. Discussions with managers, maintenance supervisors and tenants confirm that the projects are generally in good repair.

However, the projects are generally older buildings; some are in excess of 35 years old, while others are over 30 years old. As they get even older, more maintenance will be required, and the present condition cannot continue to be maintained without adequate staffing. The reduced crews have abandoned all prescheduled maintenance; now only trouble calls are answered and they cannot always be answered promptly.

Tenants cannot be expected to take pride in their apartments if the apartments are not well maintained. Housekeeping standards are likely to suffer also. In retrospect, it appears quite likely that maintenance reductions were too extensive, and the price too great in terms of potential negative impact on the quality of life in the projects. Immediate thought should be given to restoration of maintenance staff based on an objective assessment of need. Priorities should be established, and the appropriate staffing restored incrementally, as funding becomes available. (See Recommendation No. 34)





## Modernization Programs

Issue: Many of the conventional projects need major repairs and modifications. All projects need modifications to improve security.

Discussion:

The financing of major repairs (e.g., new roofs), remodeling (e.g., kitchens), and modifications (e.g., attic insulation) at conventional projects has been from special annual appropriations to HUD, and allocations made annually by HUD to local housing authorities on the basis of proposals submitted by the local authorities. The approved annual allocation is known as a "modernization phase". The funds received by the Authority for modernization work have always been less than requested and less than needed. As a result, important elements of many projects are in need of replacement, remodeling, or modification.

Prior to 1980, the Authority's record of timely accomplishment of modernization goals was not good. The Comprehensive Management Review by HUD in 1980 was critical of the modernization program. Of 14 modernization phases authorized to that date, only three had been completed. All phases beginning with Phase 72-04 (authorized in FY 1971-72) were still open.

The Authority has made an effort during the past 18 months to bring the modernization program up to date. Phase 72-04 has been closed. Phase 75-05 is in litigation and cannot be closed yet. All work on Phases 75-06, 75-07, 75-08, and 76-09 has been completed and the Phases have been closed out. Phases 76-10, 77-11, and 78-12 are in various stages of accomplishment at present: plans and specifications are being prepared, or contracts have already been let for the work. Phase 04-901 has not received final HUD approval. Phase 04-902 is approximately 30% complete. Phase 04-903, which finances the installation of smoke detectors in all rental units in all conventional projects is scheduled for completion in September, 1981.

The Authority's recent progress in bringing the modernization program more nearly up to date is commendable. There are, however, substantial continuing needs which the modernization effort must address.

On October 1, 1980, Public Law No. 96399 became effective. This Act, the "Housing and Community Development Act of 1980", among other things, amends the Housing Act of 1937 to provide for a new program to finance modernization and major improvements to the physical condition of public housing projects. The new financing program replaces the previous program. Only the modernization aspects of the Act are discussed here.



The purpose of the Comprehensive Improvement Assistance Program is:

- "1. To improve the physical condition of existing public housing projects, and
2. To upgrade the management and operation of such projects in order to insure that such projects continue to be available to serve low-income families..."

To obtain funds under the Act, the Authority must prepare an application. The application must contain an assessment of the physical condition of each project for which assistance is requested; the physical improvements needed to meet standards established by the Secretary of HUD; identification for each such project of equipment or structural elements which require replacement over the remaining life of the project; assessment of the improvements needed to upgrade management and operation of each project so that decent, safe and sanitary living conditions will be provided, including assessment of needs relating to management, financial and accounting systems, personnel employed, tenant programs and services provided, security of each project and tenants, and policies and procedures relating to projects; a plan for making improvements and replacements and for meeting the needs described, with a schedule of actions to be completed over a period not greater than five years; and estimates of the costs involved in making improvements identified.

The preparation of the application is a major undertaking, involving a comprehensive detailed evaluation of the management, operation, and physical condition of all the conventional projects. The Act provides that the costs incurred by the Authority in development of the plan may be reimbursed by HUD.

On June 15, 1981, the Authority submitted to HUD a "preliminary application" for funding under the Comprehensive Improvement Assistance Program. The preliminary application includes five-year funding requests in the amount of \$100,721,750, and Fiscal Year 1981 emergency and special purpose funding requests in the amount of \$23,176,180.

The Fiscal Year 1981 funding request covers physical needs at four of the conventional projects and one improvement affecting all of the projects, plus \$878,935 for "Management Improvement Program" expenditures at the same four projects. The Management Improvement Program includes:

- \* \$115,435 to hire one Tenant Relations Assistant for each of four projects to develop and implement revised policies in areas of tenant selection and eviction.





- \* \$653,500 for additional security personnel for the four projects.
- \* \$110,000 for training of staff to sustain physical and management improvements.

The funding request for the five year period covers only physical needs; there is no mention of management improvement needs.

The preliminary application appears to be in minimal compliance with the terms of the 1980 Act. The final application should deal in much greater detail with project needs, particularly in the areas of security and management improvements. (See Recommendation No. 35)



A P P E N D I C E S



Housing Production Department

The following represents this Office's suggested organization and management relationships to improve housing production within the Housing Authority. It is based on the premise that the Authority will limit its production efforts to those projects supported by HUD either through direct subsidy or rent guarantees.

The very existence of a Housing Production Department presupposes a commitment by management to a production policy. Although the Executive Director indicated certain goals to the Audit Team, it was not apparent that the Housing Production Department was aware of them.

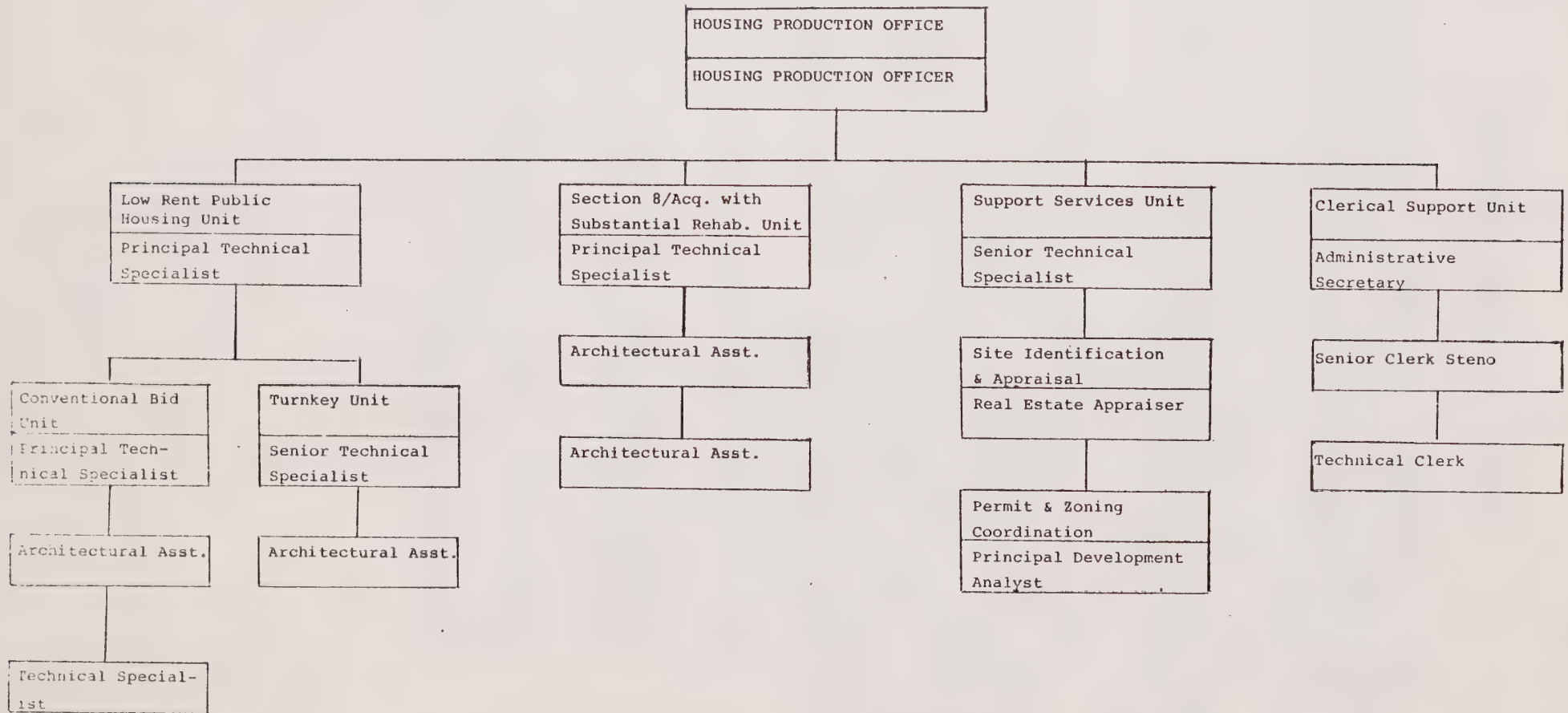
City of Los Angeles goals are identified in the Housing Production Report submitted to the Grants, Housing and Community Development Committee by the Housing Task Force on March 21, 1980. The implementation of these goals has been largely unplanned and unstructured. The Audit findings indicate that the Authority does not have a defined production policy which is essential to a real housing production commitment. The absence of such a policy explains to a great degree the general disorientation of the production effort. Production efforts in the past consisted of the Authority's attempt to produce units through LRPH, Section 8 HUD, Section 8 CHFA, nonsubsidized units, and the Urban Homestead Program.

The Housing Authority should adopt each year a "Housing Production Work Program" which would:

- \* Establish goals and objectives for housing unit production by production type (LRPH or Section 8) and set goals for the number of units to be started and completed during the year.
- \* Identify for each new production effort the implementation schedule through construction.
- \* Identify for each project the funding mechanism and the implementation schedule.



PROPOSED ORGANIZATION - HOUSING PRODUCTION DEPARTMENT



The "Housing Production Work Program" should be prepared by the Housing Production Department with input from the Finance Department and submitted to the Executive Director for review and approval. The final Work Program document should be adopted by the Housing Authority Board of Commissioners. It should be the policy of the Board to review quarterly and annually the progress on the Work Program. The annual reviews should consist of a written status report prepared by the Production Department identifying the progress on the goals for the year and a description of any underlying causes that prevented attainment of the goals.

The Work Program should not be amended without the formal approval of the Board of Commissioners. This limitation applies to applications by the Authority for additional LRPH or Section 8 program reservations. New requests for program reservations should be accompanied by an implementation schedule including projected sources of funds and a statement as to the impact the pursuit of this production effort will have on the current work program.

At the time of the Audit, the Executive Director had recently reassigned the Director of the Housing Production Department, and appointed an acting unit head as a temporary replacement. It is the opinion of the Audit Team that a permanent replacement should be sought through a nationwide search and an individual with a proven background in implementing HUD operated housing programs should be secured. In evaluating individual applicant qualifications the production record of each applicant's government sponsored housing experience should be stressed.

The new Housing Production Director should be assigned responsibility for reorganizing the Production Department. The Director should also assume responsibility for developing an operations manual for each production type. The manual would detail the step-by-step procedures from application through construction. It would identify the Housing Authority, HUD and City decision points, the units responsible for making the decision, and the critical processing time that when exceeded requires a Production staff response.

The proposed organization chart on the facing page envisions that units of specialists would be established to develop LRPH Turnkey Projects, LRPH Conventional Bid Projects, and Section 8 Projects. The support unit would then provide those standard services that transcend the different projects such as real estate acquisition where the real estate broker would secure properties for development. This would be done either by the real estate broker acting alone or through contract agreements with independent brokers. When private real estate brokers are used, a negotiated finders fee should be agreed upon and if the Authority is going to process the property through escrow, the fee should be less than the going rate. The other



members of the support team would process conditional use and zone changes, prepare project feasibility analyses and any other support functions determined by the Production Officer as having universal applicability to the various production methods.

The changes proposed for the Housing Production Department are suggestions only. The intent of this proposal is to formalize and structure the Housing Authority's commitment to production so that in the future results can be compared with expectations and management will have a basis for making corrective adjustments when needed.





Analysis of the Impact of the  
HUD Performance Funding System  
on Housing Authority of the  
City of Los Angeles since 1976

Finding: The application of HUD's Performance Funding System (PFS), used since 1976 to calculate the annual amount of operating subsidy provided by HUD to the Housing Authority of the City of Los Angeles (HACLA) for operation of Authority owned low cost rental housing under Contract SF 345, has resulted in an uneven flow of funds which interrupts management efforts aimed at stabilizing operations, and is likely to cause further financial and management difficulty in the next few years.

Analysis:

The Department of Housing and Urban Development's Performance Funding System was designed to provide an amount of operating subsidy which would be needed for well-managed PHA owned rental housing. It does not apply to other subsidies which the Authority receives annually from HUD, such as for PHA owned rental housing debt service and modernization programs, Section 23 and Section 8 programs.

The Performance Funding System is detailed and complex. It is not the intent to describe here the mechanics of the entire System. Rather, we would like to focus on the impact its application has had on the Housing Authority's operations, with just enough exposition of the System and its formula to explain the basis for our findings and recommendations. With these limitations in mind, the System is briefly described as follows.

The operating subsidy to be provided by HUD for the forthcoming budget year is computed by subtracting projected income from projected expenses. Thus, projected expenses (PE) minus projected income (PI) equals HUD operating subsidy (HUD/OS):  $PE - PI = HUD/OS$ .

EFFECT OF APPLICATION OF HUD'S PERFORMANCE FUNDING SYSTEM ON HUD OPERATING SUBSIDY, USING HUD WAGES INFLATION FACTOR  
COMPARED TO THE SUBSIDY THAT WOULD BE COMPUTED USING CITY HOUSING AUTHORITY SALARY INCREASES

EXHIBIT I

Year	HUD Wages Inflation Factor Percent	CHA Budgeted & HUD Approved Allowable Expense Level (3) (1) P.U.M.	CHA Salary Increases Percent	Allowable Expense Level (3) Using CHA Salary Increases P.U.M.	HUD Wages Inflation Factor (Under) CHA Salary Increases Percent	Cumulative Impact of Differences Between HUD Wages Inflation Factor and CHA Salary Increases				
						1976	1977	1978	1979	1980
1975 Base		\$ 94.50		\$ 94.50		1.53%	1.53%	1.53%	1.53%	1.53%
1976	5.76%	100.18	7.29%	101.63	(1.53%)		1.35%	1.35%	1.35%	1.35%
1977	6.15%	108.18	7.50%	111.11	(1.35%)			.32%	.32%	.32%
1978	5.18%	113.98	5.50%	117.42	(.32%)				1.59%	1.59%
1979	5.41%	120.44	7.00%	125.93	(1.59%)					2.38%
1980	6.62%	128.57	9.00%	137.43	(2.38%)	1.53%	2.88%	3.20%	4.79%	7.17%

EXHIBIT II

Projected Expenses							Projected Income				
Allowable Expense Level											
Year	Number Unit-months	Cumulative Excess of CHA Salary Increases Over HUD Inflation Factor (2) Percent	CHA Budgeted & HUD Approved (2) P.U.M.	Using CHA Salary Increases P.U.M.	CHA Budgeted & HUD Approved (Under) Amounts Calculated Using CHA Salary Increases P.U.M.	Total (A)	CHA Budgeted & HUD Approved Income	Actual Operating Income Amount	% Increase Over Prior Year Percent	CHA Budgeted & HUD Approved Over (Under) Actual (B)	HUD Operating Subsidy Over- (Under) Subsidy Computed Using CHA Salary Increases (A) minus (B)
1975 Base			\$ 94.50	\$ 94.50	\$	\$	\$	\$ 6,681,000		\$	\$
1976	103,308	1.53%	100.18	101.63	(1.45)	(149,797)	6,441,000	7,470,000	11.8%	(1,029,000)	879,203
1977	98,304	2.88%	108.18	111.11	(2.93)	(288,031)	6,725,000	7,988,000	6.9%	(1,263,000)	974,969
1978	98,364	3.20%	113.98	117.42	(3.44)	(338,372)	8,693,000	8,675,000	8.6%	18,000	(356,372)
1979	98,340	4.79%	120.44	125.93	(5.49)	(539,887)	8,834,000	9,266,000	6.8%	( 432,000)	(107,887)
1980	98,556	7.17%	128.57	137.43	(8.86)	(873,206)	9,439,000	10,522,000	13.6%	(1,083,000)	209,794
						(2,189,293)				(3,789,000)	1,599,707

(1) P.U.M. = Per Unit Month

(2) See Exhibit I above

(3) Details of Formula Expense level adjustment not shown for simplicity (therefore percentages will not calculate exactly to \$ P.U.M.'s shown on this exhibit)

Simplified Basic Formula

Projected Expenses (A) minus Projected Income (B) equals HUD Operating Subsidy.

Projected expenses (Allowable Expense Level) computed for the budget years subsequent to the first budget year will be equal to the Allowable Expense Level of the previous budget year, increased by a Wages Inflation Factor supplied by HUD. The Inflation Factor percentage amount is computed by HUD on the basis of information furnished by the Department of Commerce. For purposes of computing the Allowable Expense Level the Base Year was 1975. Each year thereafter the previous year's Allowable Expense Level is increased by a HUD supplied Wages Inflation Factor.

For example, in Exhibit I the "HACLA Budgeted & HUD Approved Allowable Expense Level" Per Unit Month (PUM) was computed as follows:

<u>Year</u>	<u>Computation</u>	<u>Allowable Expense Level \$P.U.M.</u>
	See Note (1)	
1975	Base Year	\$ 94.50
1976	Prior Year's \$94.50 plus (5.76% of \$94.50) or \$5.68	=\$100.18
1977	Prior Year's \$100.18 plus (6.15% of 100.18) or \$8.00	=\$108.18
1978	Prior Year's \$108.18 plus (5.18% of 108.18) or \$5.80	=\$113.98
1979	etc.	

Similarly, the Allowable Expense Level using the actual salary increases granted by the HACLA shown on Exhibit II was computed as follows:

1975	Base Year	\$ 94.50
1976	Prior Year's \$94.50 plus (7.29% of \$94.50) or \$7.13	=101.63
1977	Prior Year's 101.63 plus (7.50% of 101.63) or 9.48	= 111.11
1978	Prior Year's 111.11 plus (5.50% of 111.11) or 6.31	= 117.42
1979	etc.	

Note (1) Details of Formula Expense Level adjustment are not shown for simplicity (therefore percentages will not calculate exactly to \$ P.U.M. shown).

The significant fact about the computed projected expenses (Allowable Expense Level) is that HUD's Wages Inflation Factors as prescribed for the Los Angeles area have been substantially below the actual salary increases granted by the Housing Authority. This is illustrated above and in the data presented in Exhibits I and II. It must be noted that the mechanics of the PFS is such that any error in one year is not self-correcting in subsequent years, but rather is compounded each year thereafter. Exhibit II illustrates the mechanics of this phenomenon under the section headed "Cumulative Impact of Difference between HUD Wages Inflation Factor and HACLA Salary Increases". Note that the "error" for 1980 is 2.38 percent, while the cumulative impact of the compounded error is 7.17 percent.





That this result will of necessity occur is demonstrated in the following computation.

HACLA Budgeted & HUD Approved Allowable Expense		Computation Using "Cumulative Impact" Percentages from Exhibit III See Note (1) above		Allowable Expense Level Using CHA Salary Increases
Year	Level			
1975	\$94.50			\$ 94.50
1976	100.18	plus (1.53% of \$100.18)	or \$1.45 =	101.63
1977	108.18	plus (2.88% of 108.18)	or 2.93 =	111.11
1978	113.98	plus (3.20% of 113.98)	or 3.44 =	117.42
1979	120.44	plus (4.79% of 120.44)	or 5.49 =	125.93
1980	128.57	plus (7.17% of 128.57)	or 8.86 =	137.43

Exhibit II illustrates the dollar impact. In 1978, 1979 and 1980 the Projected Expenses are considerably underestimated; \$338,372, \$539,887 and \$873,206 respectively. The cumulative impact of the compounding effect of the underestimate of the HUD Wages Inflation Factor as compared to Authority salary increases is especially noticeable in 1980.

This trend will continue unless and until the HUD Wages Inflation Factor moves significantly above the Housing Authority salary increases and stays above for a few or several years in order to correct the previous cumulative error.

Projected Income is primarily dwelling rental income with some "other" income. HUD regulations provide that dwelling rental income is to be projected based upon total "rental charges" as shown on the latest changed rent roll prior to the beginning of the requested budget year, increased by a trend factor of 3 percent and multiplied by the estimated percentage of occupancy.

The significant fact about projected dwelling rental income is that the HUD prescribed trend factor of 3 percent has been substantially below the actual rental income increases in the past few years. This is illustrated in the data presented in Exhibit II. It will be noted that the actual annual increase in operating income, which is mostly dwelling rental income, ranged from 6.9 percent in 1977 to 13.6 percent in 1980, far in excess of the HUD approved 3 percent trend factor. Unlike projected expense, any error in one year does not compound itself each year thereafter. HUD regulations state that the 3 percent trend factor was "subject to updating" but this has not been done since inception of the PFS in 1976. "Other" income is to be estimated by the PHA subject to adjustments by HUD.

Exhibit II illustrates the dollar financial impact of these regulations on the Housing Authority operation. In short, underestimates of Projected Expenses have been offset in varying





degrees by underestimates of Projected Income in calculating the HUD operating subsidy. It will be noted that in 1976 and 1977 the HUD operating subsidy was substantially in excess of the operating subsidy required; \$879,203 in 1976 and \$974,969 in 1977. In these years the HUD Wages Inflation Factor was somewhat below the Authority salary increases, but the compounding effect was minimal whereas the Projected Income (primarily dwelling rents) was underbudgeted by \$1,029,000 and \$1,263,000 respectively resulting in an excess operating subsidy.

In 1978, the Projected Income was not underestimated, resulting in a HUD operating subsidy that is \$356,372 below the operating subsidy required, as computed using HACLA salary increases. Thus, the 1978 operating subsidy was over \$1,000,000 less than the level of the 1977 operating subsidy.

In 1979 and 1980 the significant underestimate of Projected Income existed, but was barely sufficient to offset the substantial increase in the underestimate of Projected Expenses. Accordingly, the HUD operating subsidy for 1979 was \$107,887 below and for 1980 was \$209,794 over the operating subsidy required.

The foregoing analysis and conclusions are based on a comparison of the HUD supplied Wages Inflation Factor and the actual Authority salary increases. This is a valid comparison because the salary increases represent objective verifiable figures, and by themselves do not change the level of effort expended in supplying services to the housing projects. The conclusions assume that the CHA salary increases are representative of the total expenditure increases experienced by the Housing Authority. In the past five years, salaries have been between 50 percent and 60 percent of total expenditures. Even so, the mechanics, conclusions and recommendations are valid, although the precise dollar amounts may be off slightly.

Actual total operating expenditures incurred by the Housing Authority for its low cost rental housing (SF 345) program are set forth below.

<u>SF 345 Total Operating Expenditure</u>		<u>Employment</u>	
	<u>% Increase</u>	<u>Beginning of Year</u>	
	<u>Over Prior Yr.</u>		<u>Total</u>
		<u>SF 345</u>	<u>HACLA</u>
1975 \$10,942,996		370	553
1976 11,946,133	9.17%	*	636
1977 13,044,680	9.20	*	679
1978 14,451,333	10.78	388	701
1979 15,130,675	4.70	348	674
1980 14,449,531	4.50	304	597
1981 15,471,210**	7.07	302	590

\*Data not available

\*\*Budget estimate



As demonstrated in Exhibit II, the application of the Performance Funding System had the effect of overfunding the operating subsidy by \$879,203 and \$974,969 in 1976 and 1977 respectively. The Authority apparently responded by increasing its total employment and expenditures. Personnel assigned to SF 345 were increased from 370 in January, 1975 to 388 in January, 1978.

In 1978 the application of the PFS had the effect of cutting back the operating subsidy below the 1977 level by over \$1,000,000. Personnel assigned to SF 345 were reduced from 388 in January, 1978 to 302 in January, 1981. This has been a traumatic experience for the Authority and its employees, and, we believe, directly caused by the phenomenon described herein and illustrated in the attached Exhibits I and II.

If the PFS is applied in the future as it has been in the past, with the HUD Wages Inflation Factor significantly below actual cost increases experienced by the Authority for the same level of operations, it is inevitable that the SF 345 program will be in difficulty in the very near future. As illustrated in Exhibit III, because of the cumulative impact the shortfall in Projected Expenses will continue to increase and eventually will not be offset by the underestimate in Projected Income which will not continue to increase.

Our review of the HUD Performance Funding System has been limited to its impact on the City of Los Angeles Housing Authority since 1975. The comments and evaluations made here are accordingly limited. It should not be interpreted that we are suggesting that the Performance Funding System has had similar impacts on other Local Housing Authorities throughout the country. Obviously, a sample of the impact on one LHA out of some 2,000 nationwide is not sufficient to draw such overall conclusions. However, we do believe that the impact on funding in the Los Angeles Housing Authority has been unfortunate and disruptive, and will probably continue to be, so long as the PFS continues to be applied as it has been in the past.

From the viewpoint of the Department of Housing and Urban Development in managing the allocation of funds to LHA's that operate low cost rental housing, some objective criteria may be useful or even mandatory. However, the PFS and especially its Performance Funding Formula are extremely complex. Because of this complexity and the Nation's inflation rate (that appears to have exceeded the rate contemplated when the system was formulated), it is extremely doubtful that the System has functioned as originally intended. While we concur fully with its purpose, and the need for some sort of objective criteria, it may be appropriate at this time for HUD to make a total review of how the existing PFS is functioning, and to make an evaluation as to whether it is achieving the objectives originally intended. In particular, it would appear that the application of Formula Expense Level portion of the PFS could be clarified and

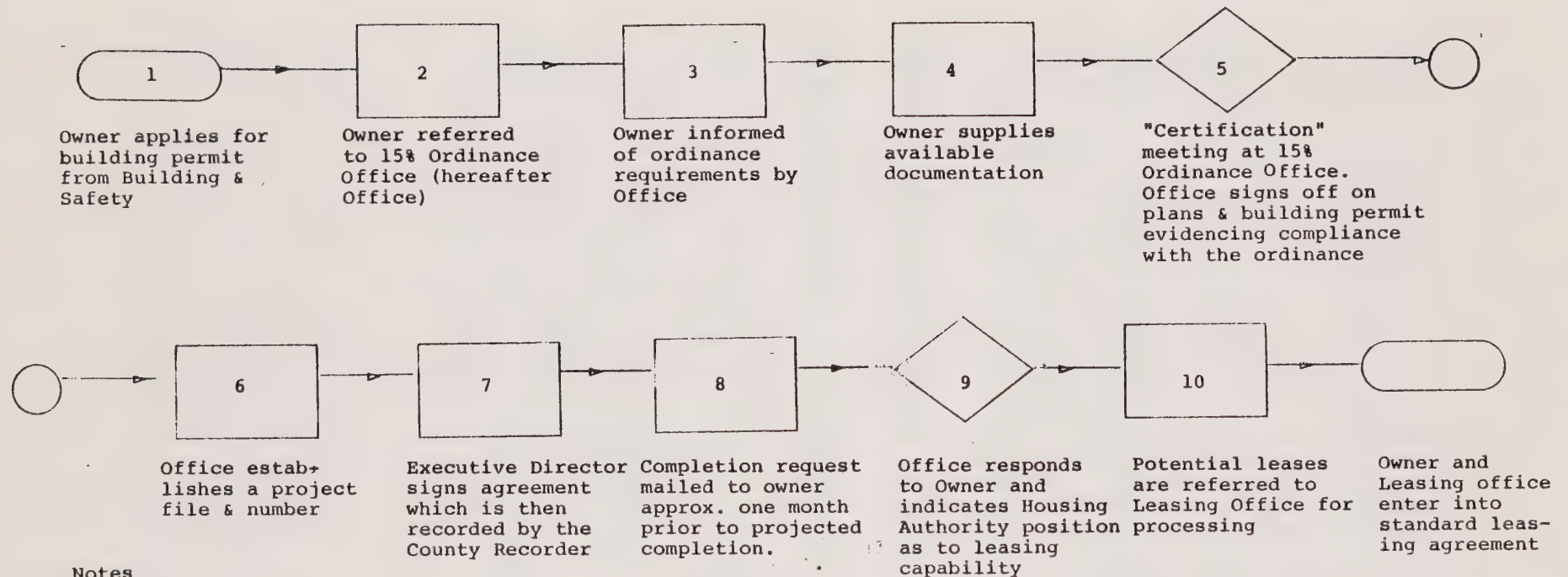




simplified. As a minimum, the problems discussed in detail above should be corrected as soon as possible.



# Flow Process - 15% Ordinance - New Construction Apartments\*



## Notes

Step 3 Requirements include:

- Application for certification
- Financial feasibility worksheet
- Execution of two original "grant of first refusal" agreements
- Execution of other supporting legal documents.

Step 4 Owner also agrees to provide in-process documentation when available.

Step 6 Project file includes all items shown in Notes to Step 3 together with subsequent chronological activity.

Step 7 This step is not initiated until all documentation is received.

Step 8 Office makes necessary follow-up until current marketing information is forthcoming.

Step 9 Notification must be made within 5 working days from receipt of completion information.

Step 10 Leasing office conducts a tenant search and matches available units.

\*The process for New Construction Condominiums parallels that for New Construction Apartments except that double certification is required: 1) to the Bureau of Engineering and 2) to the Department of Building and Safety. Another difference is that with condominiums, the "Agreement C" cannot be recorded until the Tract Map has been recorded. Also, since there has been no subsidy approved for condominiums to date (Due to the high price of condominiums) a blanket release is provided to the developer/owner authorizing initial sales. (A blanket release indicates that the right of first refusal cannot be exercised). All units released for sale to initial buyers must be reported to the Office at the close of escrow. The information in the report includes size of unit, purchase price, escrow closing date, and names of buyer(s). Condominium conversion differs from the other two processes in that certification for conversions is effected only by letter to the Bureau of Engineering.



Implementation Chronology: First Low Rent Public HousingProgram Reservation Issued To Housing Authority

<u>Action</u>	<u>Date</u>
1. Notice of Housing Assistance Availablilty (NOHAA)	5/30/77
2. Housing Authority of City of Los Angeles (HACLA) submits application to HUD	7/01/77
3. HUD acknowledges receipt and indicates additional data required	7/25/77
4. HUD acknowledges receipt of additional data	9/16/77
5. Program reservation issued by HUD for 300 family units	9/30/77
6. HACLA submits draft of Developers Handbook to HUD	2/17/78
7. HUD approves developer packet for 300 units	2/21/78
8. Internal HACLA memo on Developer Time Schedule indicating that HUD states it will not complete review within three weeks, but within 30-60 days. Memo registers concern about implications of this for RFP issuance (HUD meeting 3/2/78). Original Notice of Selection to be May 5, 1978. Proposals accepted through 4/7/78	3/03/78
9. Notification of RFP to be issued	3/01/78
10. Notified HUD that no proposals received and the HACLA intends to re-advertise and requested HUD approval for new submission dates and authority to use 7/1/78 prototype costs, also if this proposal does not exhaust requested authority to convert the program to conventional bid method of construction	5/8/78





<u>Action</u>	<u>Date</u>
11. Requested Council Resolution approving HACLA request for preliminary loan reservation	5/11/78
12. HUD notifies HACLA that request to convert to conventional bid method is approved because no responsible turnkey bids were received. (One proposal)	7/19/78
13. HACLA requests changes in program reservation from one 300 unit project to 15 program reservations of 20 units for each Council District and indicating they would prefer this method of program reservation for all future LRPB allocations with ability to switch reservation to other CD's if land not available	8/17/78
14. HUD transmits preliminary loan contract documents	8/18/78
15. HACLA requests Board of Commissioners authorization to execute preliminary loan contract	8/28/78
16. HACLA notified by HUD that amendment to program reservation to have 300 unit reservation converted to 15 twenty-unit sites is approved	8/30/78
17. HUD transmits executed preliminary loan	
A. HACLA submits preliminary loan contract to Grants Committee	9/20/78
B. Council adopted	9/21/78
C. Mayor concurrence	9/22/78
18. HACLA submits preliminary site reports to HUD	10/27/78
19. HACLA press release that it is seeking land	11/08/78
20. Letter from HACLA to HUD advising of problems in site acquisition for LRPB development as follows:	12/20/78
A. Few sites available at any price	



ActionDate

- B. On those sites available for immediate sale, owners do not want to grant options in inflationary market
  - C. Long time required for HUD preliminary site approval. First sites submitted 10/27/78 and no HUD notification of a completed review at this date
  - D. Once preliminary review completed still months away from development program, and Annual Contributions Contract
  - E. HUD staff has advised that preliminary loan funds cannot be used for site acquisition
  - F. Asked for HUD procedures change to expedite site review
21. HUD notifies HACLA that program reservation will be rescinded unless Authority can demonstrate that construction starts can be achieved within reasonable time. Program guidelines require a development program within one year of program reservation 3/21/79
22. Letter to HUD detailing problems and suggesting HUD reconsider decision to remove program reservation 4/02/79
23. Letter from HUD reiterating obligation to withdraw subsidy. That HUD has no objection to breaking reservations into smaller segments and that remaining loan authority would be lost as soon as first 20 unit project is separated 5/07/79
24. HACLA request to HUD that sites previously submitted for Program CA16-P004-039 be changed to Program CA16-P004-42+43. Purpose of change was to use CA16-004-39 in CRA project areas. Request initiated at





<u>Action</u>	<u>Date</u>
request of HUD staff	11/17/79
25. Letter to HUD proposing turnkey construction	12/13/79
26. Letter to HUD submitting developers Package and Notice of Invitation for Turnkey Proposals for approval. Indicating request to begin advertising beginning in February	1/16/80
27. Internal HACLA memo indicating HUD verbal approval to 12/13/79 letter and request for authority to issue press releases	3/27/80
28. Notice of Invitation - Turnkey Housing Proposals issued	4/17-4/24/80
29. Letter from HUD approving Turnkey Proposal	4/21/80
30. Internal HACLA memo designating evaluation staff to review 18 turnkey proposals received through 5/30/80	6/04/80
31. HACLA site evaluations completed for original turnkey submissions	6/14/80
32. Reissue of Turnkey Proposals using revised 30 unit referendum authority. Deadline for submission 10/15/80. Purpose to complete program reservation	8/15/80
33. Additional turnkey site proposals submitted to HUD for approval	8/22/80
34. HUD had not provided site approvals for any of the proposed turnkey sites	12/80

Source: Los Angeles City Housing  
Authority Files

Project No. CA16-P004-0039  
CA16-P004-0059-82



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